Poli Marmolejos, Director
U.S. Department of Energy
Office of Civil Rights and Diversity
1000 Independence Avenue, S.W.
Washington, D.C. 20585
E-mail: poli.marmolejos@hq.doe.gov

Re: CAlifornians for Renewable Energy Inc., (CARE) *et al* v. California Independent System Operator, Inc *et al* DOE Complaint No. 03-003-HQ

Dear Mr. Marmolejos,

Thank you for your January 7, 2005 response to our June 21, 2003 Complaint, DOE 03-003-HQ.

We wish to provide you the following supplemental information regarding our claim that as a tax-exempt organization under 501(c)(3) of the Internal Revenue Code the California Independent System Operator Corporation (CAISO) is mandated to "having a racially nondiscriminatory policy" in regards to it board of director's governance and any other policy such as the *San Francisco Greater Bay Area Generation Outage Standard.* CARE provided you as attachment 1 with our Complaint a Memorandum to the CAISO Board of Governors, from Armando J. Perez, Director of Grid Planning, dated February 1, 2002, in reference to Proposed Revisions to ISO Grid Planning Standards. This memorandum[1] required Board action. In taking this action the CAISO Board based its requirements on an erroneous reliability criteria that "[o]n June 14, 2000, rolling blackouts were initiated in the San Francisco Bay area to protect against the potential for voltage collapse".

[1] Exhibit 1.

San Francisco Greater Bay Area Generation Outage Standard: On June 14, 2000, rolling blackouts were initiated in the San Francisco Bay area to protect against the potential for voltage collapse. As a result of an investigation into these blackouts, the ISO Grid Planning Standards Committee determined that, while the normal standard of planning for one generating unit in combination with one transmission line out is adequate for most of the ISO Grid, it is inadequate for the greater San Francisco Bay area. [February 1, 2002 Memo to CAISO Board at page 2 and caption 3.]

What the CAISO has failed to point out to you is there exists substantial evidence that the sellers of energy and ancillary service in to markets operated by the CAISO, including energy sellers like Enron, actual contrived the rolling blackouts that occurred on June 14, 2000 along with other energy sellers. In a May 16th, 2002 CBS MarketWatch report for example titled *Enron linked to California blackouts* it reported,

> On June 14 and June 15 that summer, when a heat wave swept through Northern California and pushed temperatures above 100 degrees, the traders said Enron clogged Path 26 with power, essentially creating a bottleneck that would not allow power to be sent via Path 15 to Northern California. "What we did was overbook the line we had the rights on during a shortage or in a heat wave,'" one trader said. "We did this in June 2000 when the Bay Area was going through a heat wave and the ISO couldn't send power to the North. The ISO has to pay Enron to free up the line in order to send power to San Francisco to keep the lights on. But by the time they agreed to pay us, rolling blackouts had already hit California and the price for electricity went through the roof.[2]

Why would the CAISO have failed to point out there exists substantial evidence that the sellers of energy and ancillary service in to markets operated by the CAISO, including energy sellers like Enron, had ample opportunity and exercised control of the CAISO Board of Governors, through their interrelated membership as officers and directors of the CAISO Board of Governors, and of the Independent Energy Producers Association (IEPA), Inc. purportedly also a so-called 501(C)(3) non-profit corporation?

---

[2] Enron linked to California blackouts, Traders said manipulation began energy crisis by Jason Leopold May 16, 2002 LOS ANGELES (CBS.MW) -- Two days of rolling blackouts in June 2000 that marked the beginning of California's energy crisis were directly caused by manipulative energy trading, according to a dozen former traders for Enron and its rivals.

Why then did the CAISO Board base its *San Francisco Greater Bay Area Generation Outage Standard* requirements on an erroneous reliability criteria that "[o]n June 14, 2000, rolling blackouts were initiated in the San Francisco Bay area to protect against the potential for voltage collapse" unless they had something to hide? Perhaps these additional exhibits will provide you the evidence you need to untangle their web of deception. The CAISO has a lot to loose in back taxes if we are correct in that the CAISO's June 14, 2000 rolling blackouts criteria is fraudulent at best and malicious actions at worst, if as we allege here it involved members of the CAISO Board of Governors, based on the loss of life attributed to the June 14, 2000 rolling blackouts.

We are providing a copy of the minutes of the Board of Directors of IEPA of December 14, 1999[3] which list as Executive Director of the IEPA, Jan Smutney-Jones, and Director David Parquet from Enron. I am also providing a February 17th, 1999 Press Release from the CAISO[4] announcing the appointment Terry M. Winter as the new CAISO President and CEO effective March 1, 1999, along with a quote from Jan Smutney-Jones as the ISO Board of Governor Chairperson. Mr. Winter is still today the CAISO CEO and Jan Smutney-Jones is still the Executive Director of the IEPA.

> CAL-ISO BOARD OF GOVERNORS NAMES NEW PRESIDENT AND CEO COO Terry M. Winter Accepts New Position Effective March 1, 1999 (Folsom, CA) Moving quickly to fill the vacancy created by the departure of President and CEO Jeffrey D. Tranen, the Board of Governors of the California Independent System Operator (Cal-ISO) voted unanimously today , Wednesday, February 17, 1999, to appoint Terry M. Winter as the new Cal-ISO President and CEO effective March 1, 1999. Mr. Winter is currently the Chief Operating Officer (COO) of the Cal-ISO and will retain those responsibilities. He has been with the organization since its beginnings, serving first on the Board of the ISO Trust and later named COO in the summer of 1997.
>
> "There was no need to conduct a search for a new leader, because we had the right person already here," said ISO Board of Governor Chairperson Jan Smutny-Jones. "Terry was instrumental in helping to develop the ISO, starting with his service on the Board of the ISO Trust. As COO, he has been responsible for the reliable operation of the transmission system

[3] Exhibit 2 attached.
[4] Exhibit 3 attached.

> entrusted to the ISO. We believe his appointment as President and CEO will provide the stability and continuity necessary to the ISO's continued success as we begin our second year of operation."

We are providing a copy of motion July 7th, 2000 before the Board of Governors of the CAISO[5] in response to the June 14th, 2000 rolling blackouts.

> Moved that ISO senior management develop a program and report to the board on the leadership activities they have undertaken and will undertake to deal with the statewide issues that California faces to continue to develop workably competitive markets. Such activities should include establishing multi-organization committees to deal with, by no later than July 17, 2000, short-term solutions for the San Diego ratepayers including new hedging or bilateral agreement capabilities, and by July 31, 2000, longer-term solutions or possibilities for longer-term solutions for incenting and expediting the siting and interconnection of new transmission and generation, development of aggressive demand-side management programs, metering for consumers, and other issues as the parties may develop.

This attachment lists Mr. Smutney-Jones Executive Director of the IEPA, Mr. Parquet of Enron, and Mr. Winters as present and voting, apparently un aware they had any conflict of interest with the sellers of energy and ancillary service in to markets operated by the CAISO whom where members of the IEPA, board or officers.

We are attaching the redacted transcript[6] of the July 7th, 2000 Board of Governors meeting of the CAISO to demonstrate that Mr. Smutney-Jones, as then IEPA Executive Director, and CAISO Board of Governors Chairperson, was in a position to dictate his racially and economically discriminatory policies.

We are also attaching a copy of a letter to former California Governor Gray Davis on the causes of the June 14, 2000 rolling blackouts[7] that are fraudulent at best, since this was signed by Mr. Smutney-Jones, then IEPA Executive Director, and CAISO Board of Governors Chairperson, along with and IEPA Director and CAISO Board of Governors member David Parquet, from Enron, along with a long list of other sellers of energy and

[5] Exhibit 4 attached.
[6] Exhibit 5 attached.
[7] Exhibit 6 attached.

ancillary service in to markets operated by the CAISO whom where members of the IEPA board.

This information is relevant to your investigation as it demonstrates that there is a pattern of the CAISO prejudicial actions taken against the low income consumers of color which we represent, therefore, not having a racially nondiscriminatory policy as is demonstrated through the actions taken by members of the CAISO Board of Governors involving the June 14, 2000 rolling blackouts is as we allege not "charitable" within the common law concepts reflected in 501(c)(3) either.

In regards to evidence of CAISO status as a non-profit 501(c)(3) corporation we are attaching a copy of CAISO's 1997 Articles of Incorporation[8] along with the 2001 amendment to its Articles of Incorporation[9], both which we allege erroneously lists its status as a tax-exempt organization under 501(c)(3) of the Internal Revenue Code.

Respectfully submitted,

Complainants:

Lynne Brown

Lynne Brown – Vice-President
CAlifornians for Renewable Energy, Inc. (CARE)
Resident, Bayview Hunters Point
24 Harbor Road
San Francisco, CA 94124

Michael E. Boyd

Michael E. Boyd- President
CAlifornians for Renewable Energy, Inc. (CARE)
5439 Soquel Drive
Soquel, CA 95073

[8] Exhibit 7 attached.
[9] Exhibit 8 attached.

Verification

I am an officer of the Intervening Corporation herein, and am authorized to make this verification on its behalf. The statements in the foregoing document are true of my own knowledge, except matters, which are therein stated on information and belief, and as to those matters I believe them to be true.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on this 22nd day of February 2005, at Soquel, California.

Michael E. Boyd

Michael E. Boyd – President, CARE
CAlifornians for Renewable Energy, Inc. (CARE)
5439 Soquel Dr.
Soquel, CA 95073-2659
Tel: (408) 891-9677
Fax: (831) 465-8491
E-mail: michaelboyd@sbcglobal.net

Certificate of Service

I hereby certify that I have this day served a copy of the foregoing document on all parties of record in the above captioned proceedings by serving an electronic copy on their email addresses of record and by mailing a properly addressed copy by first-class mail with postage prepaid to each party for whom an email address is unavailable.

Executed on this 22nd day of February 2005, at Soquel, California.

Michael E. Boyd

Michael E. Boyd – President, CARE
CAlifornians for Renewable Energy, Inc. (CARE)
5439 Soquel Dr.
Soquel, CA 95073-2659
Tel: (408) 891-9677
Fax: (831) 465-8491
E-mail: michaelboyd@sbcglobal.net

cc. sebastian.aloot@usdoj.gov

Respondents:

Gene Waas, E-mail: GWaas@caiso.com
J. Phillip Jordan, Counsel for CAISO,
E-mail: jpjordan@swidlaw.com
California Independent System Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630
Telephone: (916) 608-7049

Pacific Gas and Electric Company
Holly Welles, Ph.D.
Senior Program Manager
Environmental Affairs
Pacific Gas and Electric Company
77 Beale Street, Room 2461
San Francisco, CA 94105-1814
Tel. 415.973.4407
Fax 415.973.0230
E-mail: hpw1@pge.com

California Energy Commission
San Francisco Electric Reliability Project
Power Plant Licensing Case, Docket Number: 04-AFC-1
Bill Pfanner - Project Manager
Systems Assessment & Facility Siting Division
Margret J. Kim - Public Adviser
California Energy Commission
1516 Ninth Street, MS-15
Sacramento, CA 95814
Phone: 916-654-4206
E-mail: bpfanner@energy.state.ca.us
E-mail: PAO@energy.state.ca.us

City and County of San Francisco
Office of the City Attorney
City Hall, Room 234
San Francisco, CA 94102
(415) 554-4700
(415) 554-4745 - fax
E-mail: cityattorney@sfgov.org

Memorandum

To: ISO Board of Governors

From: Armando J. Perez, Director of Grid Planning

CC: ISO Officers, ISO Board Assistants

Date: February 1, 2002

Re: Proposed Revisions to ISO Grid Planning Standards

This memorandum requires Board action

BACKGROUND

The level of reliability that is provided by the current power grid is dependent upon many planning decisions that were made years ago by a variety of entities. Currently, decisions on what new facilities should be added to the California ISO Grid to ensure future system reliability are made primarily in the ISO Grid Coordinated Planning Process. This planning process is completed jointly by the ISO Grid Planning Department and the Participating Transmission Owners (PTOs). To analyze the reliability of the grid in future years, the ISO and the PTO's build mathematical models of the system and simulate future system performance. The simulations model disturbances such as the outage of generation and transmission facilities and assess the grid's ability to continue to deliver power to the consumers under those conditions. The determination of whether or not the grid is sufficiently reliable is made by comparing the results of these simulations against the current ISO Board-approved Planning Standards. When reliability is determined to be insufficient, new transmission projects and/or other operation measures such as the special protection systems described below, are developed and implemented. These ISO Board-approved Planning Standards directly impact the future reliability and cost of the ISO grid.

The bulk of the Planning Standards used in planning the ISO Grid are developed by the North American Electric Reliability Council (NERC) and the Western Systems Coordinating Council (WSCC). NERC covers the majority of the North American continent. WSCC is a region within NERC that essentially covers the area west of the Rocky Mountains. A copy of the NERC/WSCC Planning Standards is provided for your information in Attachment 2. The NERC/WSCC Planning Standards were developed through a collaborative process that included substantial input from the California ISO (the California ISO currently chairs the NERC Subcommittee that develops these standards and until recently the California ISO also chaired the WSCC Subcommittee that develops WSCC's Planning Standards). The NERC/WSCC Planning

standards are discussed here for your information: they do not require Board Approval. State law already requires that the California ISO comply with these standards. The approvals requested in this memo involve specific ISO Grid Planning Standards that are either more specific or more stringent than the NERC/WSCC Planning Standards.

CHANGES PROPOSED

All of the changes that are being proposed in this memo have been through lengthy stakeholder processes and two of the proposed changes have been previously approved by the Board on a trial basis. ISO management is requesting that the Board adopt formally all of these changes as approved additions to the ISO Grid Planning Standards. The approval of these changes will help ensure that the power grid will be reliable and cost effective in the future.

The following four areas of changes are proposed for your approval:

1) **Changes to conform with the revised NERC/WSCC Planning Standards:** These changes are primarily ministerial and are necessary to conform the ISO Grid Planning Standards with recent revisions to the NERC/WSCC Planning Standards (see Attachment 2). While these changes are numerous and are scattered throughout the ISO Grid Planning Standards document, they do not change the intent of the standards that have already been approved by the ISO Board. As a result, they have not been highlighted in the attached document.

2) **New Transmission versus Involuntary Load Interruption:** For practical and economic reasons, all electric transmission systems are planned to allow for some involuntary loss of firm load under contingency conditions. For some systems, such a loss of load may require several contingencies to occur while for other systems, loss of load may occur in the event of specific single contingencies. Currently, a wide variation in approaches exists among the California ISO PTOs. These changes in the standards will transition the PTOs to a common and consistent approach toward the application of involuntary load interruptions to grid planning. The requested action is to formally approve the adoption of these planning standards that were formally approved on a trial basis in March of 2000. These changes are described on page 3 in Attachment 1. Additional background on this change is provided on pages 10-12 of Attachment 1.

3) **San Francisco Greater Bay Area Generation Outage Standard:** On June 14, 2000, rolling blackouts were initiated in the San Francisco Bay area to protect against the potential for voltage collapse. As a result of an investigation into these blackouts, the ISO Grid Planning Standards Committee determined that, while the normal standard of planning for one generating unit in combination with one transmission line out is adequate for most of the ISO Grid, it is inadequate for the greater San Francisco Bay area. In the Bay Area, there is an unusually large concentration of generating units (more than 30) which increases the likelihood that more than one unit could be forced out of service at a given time. In addition, the historical forced outage rates for the units in the Bay Area are significantly higher than the industry averages for similar units resulting in a higher probability of such multiple outage occurrences. Based on this information, and discussion at six stakeholder meetings where a variety of approaches to potential new standards were considered, the San Francisco Greater Bay Area Generation Outage Standard was developed. This standard was approved by the ISO board on a

trial basis in April of 2001. The trial is now over and the cost of implementing the standard is now known. Implementation of this standard would lead to the advancement of two of PG&E's planned projects. The total cost of the two projects is between $16 million and $23 million. The cost to advance these two projects has not been calculated but would only be a fraction of the total project cost. Based on the low cost of implementing this standard, ISO management recommends that this standard be adopted. As the characteristics of the generation make-up in the area changes, this Standard will be revisited and revised as necessary. In addition, recent experiences with emission restrictions on the operation of Bay Area generation have led to a need to reassess whether this standard is sufficient. The proposed changes to the standards are shown on page 3 in Attachment 1. Additional background on these changes is provided on pages 13-17 of Attachment 1.

4) **ISO Grid Planning Guides for New Generator Special Protection Systems:** A Special Protection System (SPS) detects abnormal system conditions and takes pre-planned, corrective action to provide acceptable system performance. In the context of new generation projects, the primary action of a SPS would be to detect a transmission outage that could potentially overload a transmission facility and then trip or run back generation output to avoid overloaded facilities or other criteria violations. The alternatives to a SPS are pre-contingency generation curtailment or new transmission facilities. The primary reasons why a SPS might be selected over new transmission facilities are that a SPS can normally be implemented much more quickly and for significantly lower cost. In addition, a SPS can increase the utilization of the existing transmission facilities and make better use of scarce transmission resources. Due to these advantages, SPS is an alternative commonly proposed as a cost-effective method of integrating new generation into the grid while maintaining system reliability. While SPSs have substantial advantages, they have disadvantages as well. With the increased transmission system utilization that comes with application of an SPS, there can be increased exposure to potential criteria violations, transmission outages can become more difficult to schedule, and the system can become more difficult to operate. If there are a large number of SPSs, it may become difficult to assess the interdependency of these SPSs on system reliability. It is these reliability concerns that have led to the development of the additional guides in this document concerning the application of SPS. It is the intent of these guidelines to allow the use of SPSs to maximize the capability of the existing transmission facilities while maintaining system reliability and operability. The need for these guides has become more critical as a number of new generators that are currently planning to connect to the ISO Grid. It needs to be emphasized that these are guides rather than standards. This is to emphasize that judgement will need to be used by system planners and operators in determining when the application of SPS will be acceptable. It is recognized that it is not possible or desirable to have strict standards for the acceptability of the use of SPS in all potential applications. These changes to the standards are shown on pages 5-8 of Attachment 1.

ISSUE STATEMENT AND POSITIONS OF THE PARTIES

While there were many contentious issues addressed during the development of these standards and guides, as far as ISO management is aware, there is only one major issue that remains. That issue

involves the proposed new guides for the use of special protection scheme (SPS) for new generators. While all parties agree with the use of a SPS to address reliability concerns associated with multiple contingency outages, there are differing opinions concerning the use of SPS to address facility overloading concerns following single contingency outages. Currently, there are three primary positions on this issue:

Position 1 – SPS should not be used to mitigate single contingency overloading concerns: The proponents of this position believe that the system reliability and operability concerns associated with SPS are sufficient to prohibit the use of a SPS to address single contingency outages. This position is supported by the San Diego Gas and Electric Company, the City of San Francisco, and the Sacramento Municipal Utility District.

Position 2 – The use of SPS to mitigate single contingency overloading concerns should be limited to nominal thermal overload concerns (i.e., less than a 10% overload): The proponent of this position believes that such a guide is necessary to ensure that transmission facilities are not damaged should the SPS fail to operate correctly. This position is supported by the Pacific Gas and Electric Company.

Position 3 - SPS should be available to address single contingency overloading concerns: Supporters of this position believe that sufficient reliability can be designed into the SPS scheme (i.e., redundancy) to ensure acceptable system reliability. This position is supported by the Southern California Edison Company and several generation developers.

MANAGEMENT RECOMMENDATION

Management recommends approval of these changes to the ISO Grid Planning Standards.

Move the approval of the proposed revisions to the ISO Grid Planning Standards as shown in Attachment 1.

Attachment 1

CALIFORNIA ISO

PLANNING STANDARDS

DRAFT

February 2002

Table of Contents

California ISO Planning Standards

I. Introduction

The purpose of this document is to specify the Planning Standards that will be used in the planning of ISO Grid transmission facilities. The primary principle guiding the development of the ISO Grid Planning Standards is to develop a consistent reliability standards for the ISO grid that will maintain or improve the level of transmission system reliability that existed with the pre-ISO planning standards.

The ISO Tariff specifies:

> "After the ISO Operations Date, the ISO, in consultation with Participating TOs and any affected UDCs, will work to develop a consistent set of reliability criteria for the ISO Controlled Grid which the TOs will use in their transmission planning and expansion studies or decisions."[1]

The ISO Tariff specifies in several places that the facilities that are to be added to the ISO Grid are to meet the Applicable Reliability Standard, which is defined as follows:

> "The reliability standards established by NERC, WSCC, and Local Reliability Criteria as amended from time to time, including any requirements of the NRC."[2]

These ISO Grid Planning Standards fill the role of the "consistent set of reliability criteria" in the above tariff language. To facilitate the development of these Standards, the ISO formed the ISO Grid Planning Standards Committee (PSC), which includes representation from all interested market participants. One of the primary roles of the PSC is to periodically review the ISO Grid Planning Standards and recommend changes as necessary. In recognition of the need to closely coordinate the development of the ISO Grid with neighboring electric systems both inside and outside of California, the approach taken by the PSC is to utilize regional (WSCC) and continental (NERC) standards to the maximum extent possible. These ISO Grid Planning Standards build off of, rather than duplicate, Standards that were developed by WSCC and NERC. The PSC has determined that the ISO Grid Planning Standards should:

- Address specifics not covered in the NERC/WSCC Planning Standards.
- Provide interpretations of the NERC/WSCC Planning Standards specific to the ISO Grid.
- Identify whether specific criteria should be adopted that are more stringent than the NERC/WSCC Planning Standards.

The following Section details the ISO Grid Planning Standards. Also attached are interpretations of the terms used by NERC and background information behind the development of these standards.

---

[1] ISO Tariff, October 13, 2000, Section 3.2.1.2, Original Sheet No. 144.
[2] ISO Tariff, October 13, 2000, Appendix A, Original Sheet No. 303.

II. ISO Grid Planning Standards

The ISO Grid Planning Standards include the following:

1. **NERC/WSCC Planning Standards** - The standards specified in the NERC/WSCC Planning Standards unless WSCC or NERC formally grants an exemption or deference to the ISO.

2. **Specific Nuclear Unit Standards** - The criteria pertaining to the Diablo Canyon and San Onofre Nuclear Power Plants, as specified in Appendix E of the Transmission Control Agreement.

3. **Combined Line and Generator Outage Standard** - A single transmission circuit outage with one generator already out of service and the system adjusted shall meet the performance requirements of the NERC Planning Standards for Category B contingencies.

4. **New Transmission versus Involuntary Load Interruption Standard**

   A. Involuntary load interruptions are not an acceptable consequence in planning for ISO Planning Standard Category B disturbances (either single contingencies or the combined contingency of a single generator and a single transmission line), unless the ISO Board decides that the capital project alternative is clearly not cost effective (after considering all the costs and benefits). In any case, planned load interruptions for Category B disturbances are to be limited to radial and local network customers as specified in the NERC Planning Standards.

   B. Involuntary load interruptions are an acceptable consequence in planning for ISO Planning Standard Category C and D disturbances (multiple contingencies with the exception of the combined outage of a single generator and a single transmission line), unless the ISO Board decides that the capital project alternative is clearly cost effective (after considering all the costs and benefits).

   C. In cases where the application of Standards 4A and 4B would result in the elimination of a project or relaxation of standards that would have been built under past planning practices, these cases will be presented to the ISO Board for a determination as to whether or not the projects should be constructed.

5. **San Francisco Greater Bay Area Generation Outage Standard** - Before conducting Grid Planning studies for the San Francisco Greater Bay Area, the following three units should be removed from service in the base case:

   - One 50 MW CT in the Greater Bay Area but not on the San Francisco Peninsula.
   - The largest single unit on the San Francisco Peninsula.
   - One 50 MW CT on the San Francisco Peninsula.

   The case with the above three units out of service should be treated as the "system normal" or starting base case (NERC Category A) when planning the system. Traditional contingency analysis, based on the standards specified in the NERC, WSCC (including voltage stability), and ISO standards (such as single line outage, single generator outage etc), would be conducted on top of this base condition. The one exception is that when screening for the most critical single generation outage, only units that are not on the San Francisco peninsula should be considered. Similarly, when examining multiple unit outages, at least one of the units considered should not be on the San Francisco Peninsula.

This standard is intended to apply to system planning studies and not system operating studies. In addition, this standard has not been designed to be used to determine Reliability Must-Run generation requirements. The RMR standards are intentionally developed separately from the Planning Standards.

It is recognized that it may require several years to add the facilities to the system that are necessary to allow the system to meet this standard. The amount of time required will depend on the specific facility additions this standard generates.

III. ISO Grid Planning Guides for New Generator Special Protection Systems

As stated in the NERC/WSCC Planning Standards, the function of a Special Protection System (SPS) is to: "detect abnormal system conditions and take pre-planned, corrective action (other than the isolation of faulted elements) to provide acceptable system performance." In the context of new generation projects, the primary action of a SPS would be to detect a transmission outage (either a single or credible multiple contingency) or an overloaded transmission facility and then trip or run back generation output to avoid potential overloaded facilities or other criteria violations. The alternatives to a SPS are pre-contingency generation curtailment or new transmission facilities.

The primary reasons why a SPS might be selected over new transmission facilities are that a SPS can normally be implemented much more quickly and for a much lower cost. In addition, a SPS can increase the utilization of the existing transmission facilities and make better use of scarce transmission resources. Due to these advantages, a SPS is an alternative commonly proposed as a cost-effective method of integrating new generation into the grid while maintaining system reliability. While SPSs have substantial advantages, they have disadvantages as well. With the increased transmission system utilization that comes with application of a SPS, there can be increased exposure to potential criteria violations, transmission outages can become more difficult to schedule, and the system can become more difficult to operate. If there are a large number of SPSs, it may become difficult to assess the interdependency of these SPSs on system reliability. It is these reliability concerns that have led to the development of the additional guides in this document concerning the application of SPS. It is the intent of these guidelines to allow the use of SPSs to maximize the capability of the existing transmission facilities while maintaining system reliability and operability. The need for these guides has become more critical as a result of the large number of new generators that are currently planning to connect to the ISO Grid.

It needs to be emphasized that these are guides rather than standards. This is to emphasize that judgement will need to be used by system planners and operators in determining when the application of SPS will be acceptable. It is recognized that it is not possible or desirable to have strict standards for the acceptability of the use of a SPS in all potential applications.

California ISO New Generator SPS Guides

ISO G1. The overall reliability of the system should not be degraded after the combined addition of the SPS and the generator.

ISO G2. The SPS needs to be highly reliable. Normally, SPS failure will need to be determined to be non-credible. To meet this requirement, the SPS may need to be fully redundant.

ISO G3. The SPS must be fully automatic, including arming, as much as practical.

ISO G4. The total net amount of generation tripped by a SPS for a single contingency cannot exceed the ISO's largest single generation contingency (currently one Diablo Canyon unit at 1150 MW). The total net amount of generation tripped by a SPS for a double contingency cannot exceed 1400 MW. This amount is related to the maximum amount of spinning reserves that

the ISO has historically been required to carry. The quantities of generation specified in this standard represent the current upper limits for generation tripping. These quantities will be reviewed periodically and may increase or decrease. In addition, the actual amount of generation that can be tripped is project specific and may depend on the reliability criteria violations to be addressed. Therefore, the amount of generation that can be tripped for a specific project may be lower than the amounts shown in this guide. The net amount of generation is the gross plant output less the load (plant and other) tripped by the same SPS.

ISO G5. For SPSs designed to protect against single contingency outages, the following consequences are normally unacceptable should the SPS fail to operate correctly (even for a fully redundant SPS):

A) Cascading outages beyond the outage of the facility that the SPS is intended to protect: For example, if a SPS were to fail to operate as designed for a single contingency and the line the SPS was intended to protect were to trip on overload protection, then the subsequent loss of additional facilities due to overloads or system stability would not be an acceptable consequence.

B) Voltage instability, transient instability, or small signal instability: While these are rarely concerns associated with the addition of new generation, the consequences can be so severe that they are deemed to be unacceptable results following SPS failure.

These restrictions apply to single contingency outages and not double contingency outages due to the much higher probability of occurrence of single contingency outages.

ISO G6. Close coordination of SPS is required to eliminate cascading events. All SPS in a local area (such as SDG&E, Fresno etc) and grid-wide need to be evaluated as a whole and studied as such.

ISO G7. The SPS must be simple and manageable. Generally, there should be no more than 4 local contingencies (single or credible double contingencies) that would trigger the operation of a SPS and the SPS should not be monitoring the loading on more than 4 system elements. The exception is that if the new SPS is part of an existing SPS that is triggered by more than 4 local contingencies or that monitors more than 4 system elements, then the new generation cannot materially increase the complexity of the existing SPS scheme. Generally, the SPS should only monitor facilities that are connected to the plant or to the first point of interconnection with the grid. Monitoring remote facilities may add substantial complexity to system operation and should be avoided, if possible.

ISO G8. The SPS may not include the involuntary interruption of load. Voluntary interruption of load paid for by the generator is acceptable. The exception is that the new generator can be added to an existing SPS that includes involuntary load tripping. However, the amount of involuntary load tripped by the combined SPS may not be increased as a result of the addition of the generator.

ISO G9. Action of the SPS shall limit the post-disturbance loadings and voltages on the system to be within all applicable ratings and shall ultimately bring the system to within the long-term (4 hour or longer) emergency ratings of the transmission equipment or to the loading levels that would exist on the system prior to the addition of the new generator. For example, the operation of a SPS may result in a transmission line initially being loaded at its one-hour rating. The SPS could then automatically trip or run-back generation to bring the line loading to be within the line's 4 hour or longer rating.

ISO G10. The SPS should not run-back or trip existing Reliability Must-Run generators unless there is no plausible expectation that the ISO would call upon such generators for reliability purposes during the periods where the SPS would be armed.

ISO G11. The SPS needs to be approved by the ISO and may need to be approved by the WSCC Remedial Action Scheme Reliability Task Force.

ISO G12. The CA-ISO, in coordination with affected parties, may relax SPS requirements as a temporary bridge to system reinforcements. Normally this bridging period would be limited to the time it takes to implement a specified alternative solution. An example of a relaxation of a SPS requirement would be to allow 6 initiating events rather than limiting the SPS to 4 initiating events.

ISO G13. The ISO will consider the expected frequency of operation in its review of SPS proposals.

ISO G14. In general, these guidelines are intended to be applied with more flexibility for low exposure outages (e.g., double line outages, bus outages, etc.) than for high exposure outages (e.g., single contingencies).

ISO G15. The actual performance of existing and new SPS schemes will be documented by the transmission owners and periodically reviewed by the ISO and other interested parties so that poorly performing schemes may be identified and revised.

ISO G16. All SPS schemes will be documented by the owner of the transmission system where the SPS exists. The generation owner, the transmission owner, and the ISO shall retain copies of this documentation. To facilitate transmission system studies, documentation will be made available to others upon request to the ISO.

ISO G17. Normally, the transmission owner, in coordination with affected parties, will be responsible for designing, installing, testing, documenting, and maintaining the SPS.

ISO G18. Generally, the generating units tripped by the SPS should be highly effective in reducing the loadings on the facilities of concerns.

ISO G19. Telemetry from the SPS (e.g., SPS status, overload status, etc.) to both the Transmission Owner and the ISO will normally be required. Specific telemetry requirements will be determined on a project specific basis.

IV. Interpretations of NERC/WSCC Planning Standard Terms

Listed below are several of the terms that are used in the NERC Planning Standards which members of the PSC have determined require clarification. Also provided below are ISO interpretations of these terms:

Bulk Electric System: The ISO Bulk Electric System refers to all of the facilities placed under ISO control.

Entity Responsible for the Reliability of the Interconnected System Performance: In the operation of the grid, the ISO has primary responsibility for reliability. In the planning of the grid, reliability is a joint responsibility between the PTOs and the ISO subject to appropriate coordination and review with the relevant state, local, and federal regulatory authorities and WSCC. The PTOs develop annual transmission plans, which the ISO reviews. Both the ISO and PTOs have the ability to identify transmission upgrades needed for reliability.

Entity Required to Develop load models: The TOs, in coordination with the UDCs and others, develop load models.

Projected Customer Demands: The load level modeled in the studies can significantly impact the facility additions that the studies identify as necessary. The PSC decided that for studies that address regional transmission facilities such as the design of major interties, a 1 in 5-year extreme weather load level should be assumed. For studies that are addressing local load serving concerns, the studies should assume a 1 in 10-year extreme weather load level. The more stringent requirement for local areas is necessary because fewer options exist during actual operation to mitigate performance concerns. In addition, due to diversity in load, there is more certainty in a regional load forecast than in the local area load forecast. Having a higher standard for local areas will help minimize the potential for interruption of end-use customers.

Planned or Controlled Interruption: Load interruptions can be either automatic or through operator action as long as the specific actions that need to be taken, including the magnitude of load interrupted, are identified in the ISO Grid Coordinated Planning Process and corresponding operating procedures are in place when required.

Time Allowed for Manual Readjustment: This is the amount of time required for the operator to take all actions necessary to prepare the system for the next contingency. This time should be less than 30 minutes.

IV. Background behind the New Transmission versus Involuntary Load Interruption Standard

For practical and economic reasons, all electric transmission systems are planned to allow for some involuntary loss of firm load under some contingency conditions. For some systems, such a loss of load may require several contingencies to occur while for other systems, loss of load may occur in the event of specific single contingencies. Historically, there has been a wide variation in approaches exists among the California ISO PTOs. One PTO may allow involuntary loss of load following a specific type of contingency while another PTO would build a project to prevent loss of load for the same type of contingency. This standard is intended to lead to the elimination of these inconsistencies and also to provide the information needed to help ensure that the ISO is making cost effective transmission system additions.

This standard is also a change in the approach the ISO uses in planning from primarily deterministic planning standards[3] toward probabilistic planning standards. It is the general belief of the PSC that this trend will be an improvement in that it will provide additional information for the ISO and others to use when making decisions associated with making improvements to the grid. It is the intent of the PSC that the implementation of these principles should not result in lower levels of reliability to end-use customers than existed prior to restructuring.

To implement this standard, the following process will be used:

1) Identification of Reliability Concerns: As part of the PTO's annual transmission expansion plans, each PTO will identify those ISO Category B outages that would require the involuntary interruption of load either as a result of the system configuration (i.e., such as for a radial system) or because interrupting load was necessary to meet the ISO Grid Planning Standards.

2) Information Gathering: For each of the ISO Category B outages that required involuntary interruption of load, the PTOs will estimate the following:

- The maximum amount of load that would need to be interrupted
- The duration of the interruption
- The annual energy that would not be served or delivered
- The number of interruptions per year
- The time of occurrence of the interruption (e.g., weekday summer afternoon)
- The number of customers that would be interrupted
- The composition of the load (i.e., the percent residential, commercial, industrial, and agricultural)
- Value of Service or Performance Based Ratemaking assumptions concerning the dollar impact of a load interruption

[3] An example of a purely deterministic standard is the following: There should be no more than 200 MW of load loss for a double contingency.

The above information will be documented in the PTO's Transmission Expansion Plans. Using this information, the PTOs and other interested stakeholders can estimate the benefit to the end-use customers of reducing the likelihood of interruption.

3) PTO Recommendations: As part of the evaluation of alternatives in the PTO's Five-Year Transmission Expansion Plans, the PTOs will propose either projects or operating procedures[4] to be the appropriate solution to address identified reliability criteria violations. The PTOs shall also provide their rationale for selecting either an operating procedure or a project.

4) Cost-Benefit Estimates: The PTO will estimate the costs[5] and benefits of projects to remedy the reliability concerns identified in 1) above. In addition to developing new projects, the PTOs will review currently approved projects to determine if they would still propose to construct those projects or propose an alternative solution.

For cases where the PTO has proposed an operating procedure that involves the interruption of load to be the appropriate solution, the PTOs will estimate the following:

- The future frequency and duration of outages for impacted substations
- The historical frequency and duration of outages for impacted substations
- The communities served by these substations

5) Notification: All of the above information will be provided to the stakeholders as part of the Transmission Expansion Plan prior to an ISO decision to accept or reject PTO-proposed involuntary load dropping in lieu of transmission reinforcement. The information will be made available in a timely manner so that customers can intervene before the ISO Board if they desire.

One way the information could be provided would be to develop a table such as the following:

Projected and Historical Reliability Data for Single Contingencies that can Result in Load Interruptions

Case	Area Affected		Possible Future Outage Without Project		Possible Future Outage With Project	
	Substations, Feeders, And Peak MW	Communities	Frequency	Duration	Frequency	Duration

[4] The proposed operating procedures shall be in sufficient detail in concept and application so as to allow review and approval in principle in lieu of upgrade projects.

[5] Project costs may need to be handled as confidential information.

6) ISO Review and Approval: The ISO, with input from the PTOs and other stakeholders, will review the PTO's five-year plans and determine whether to adopt the PTO's proposed projects or operating procedures[6]. The final ISO approved plan will be distributed to the stakeholders.

7) Periodic Reevaluation: Cases where it has been decided by the ISO Board to plan for involuntary load interruptions rather than a project (transmission, generation, or load reduction) will be re-evaluated every three years or more frequently if merited by load growth or system changes or if the reliability in that area has significantly deteriorated.

[6] Proposed operating procedures will be reviewed by the ISO to determine whether they can be reasonably implemented.

V. Background behind the San Francisco Greater Bay Area Generation Outage Standard

On June 14, 2000, rolling blackouts were initiated in the San Francisco Bay area to protect against the potential for voltage collapse. The major reason behind the need to implement rolling blackouts was the large number of generating units that were forced out of service on that day. The problem had not been uncovered in the planning studies for the area because the current ISO Grid Planning Standards only require that a single generating unit be assumed out of service in combination with the most critical transmission line. As a result of the June 14, 2000 rolling blackouts, the ISO Grid Planning Standards Committee was tasked with reviewing the ISO Grid Planning Standards to determine whether they need to be revised.

As a result of this review, the ISO Grid Planning Standards Committee determined that, while the normal standard of planning for one generating unit in combination with one transmission line out is adequate for most of the ISO Grid, it is inadequate for the greater San Francisco Bay area. In the Bay area, there is an unusually large concentration of generating units (more than 30) which increases the likelihood that more than one unit could be forced out of service at a given time. In addition, the historical forced outage rates for the units in the Bay area are significantly higher than the industry averages for similar units resulting in a higher probability of such multiple outage occurrences. The higher forced outage rates are at least partially due to the age of the units. Based on this information, and discussion at six stakeholder meetings where a variety of approaches to potential new standards were considered, the San Francisco Greater Bay Area Generation Outage Standard was developed.

While this proposed standard only applies to the San Francisco Bay Area, the ISO Grid Planning Standards Committee will periodically review various areas of the ISO Grid to determine if additional specific standards are warranted to address issues unique to those areas.

The ISO Grid Planning Standards Committee will review this standard periodically. This review will require forced and scheduled outage data for all generating units in the area.

The following tables provide the statistical basis for the work that has been completed by the ISO Grid Planning Standards Committee. This data was provided by PG&E and is based on outage data available to PG&E during their ownership of the units prior to the formation of the CAISO. It is assumed for this analysis that outage data will be similar under the present ownership of the units. For a description of how the data was compiled or computed, please refer to the original report that was prepared by Anatoliy Meklin of PG&E. The report is entitled "STATISTICAL ANALYSIS OF SIMULTANEOUS FORCED OUTAGES IN BAY AREA" and dated October 31, 2000.

Table 1. Forced Outage Data for Bay Area Generators

Name	MW	T2 - hours between forced outages		T1 - hours of forced outages	
		Mean	Standard deviation	Mean	Standard deviation
OAKLND 1	55	2130	1978	521	1150
OAKLND 2	55	4804	6612	306	649
OAKLND 3	55	4352	4399	29	17
ChevGen1	54	1475	1032	25	18
ChevGen2	54	1475	1032	25	18
PDEFCT2	199	1475	1032	25	18
PDEFCT1	199	1475	1032	25	18
PDEFST1	280	1475	1032	25	18
PTSB 1	170	1720	2078	79	75
PTSB 2	170	2448	1986	622	1925
PTSB 3	170	1520	1549	570	873
PTSB 4	170	2307	2048	153	138
PTSB 5	325	1798	2389	262	373
PTSB 6	325	4596	3773	67	48
PTSB 7	710	3252	6196	147	131
MOSS 5	750	2735	1416	64	35
MOSS 6	750	1626	1970	94	94
C.COS 6	340	1930	1522	429	1365
C.COS 7	340	1158	843	41	57
POTRERO3	210	3090	3156	212	186
POTRERO4	52	4705	6151	253	242
POTRERO5	52	13090	6869	75	35
POTRERO6	52	5596	9842	47	41
HNTRS P2	108	2047	1961	129	160
HNTRS P3	108	3207	4253	76	51
HNTRS P4	170	3165	4511	130	146
HNTRS P1	52	7856	7498	55	31
GLRY COG	130	1445	1010	55	38
FMC CT	52	1445	1010	55	38

Table 2. NERC Forced Outage Data for Selected Types of Units

Unit Type	MW Trb/Gen Nameplate	# of Units	Unit-Years	FOF (%)	Assuming 6 outages per year	
					T2 - hours between forced outages	T1 – hours of forced outages
FOSSIL	All Sizes	1,532	7,126	3.82	1408	56
All Fuel Types	1-99	351	1,486	3.18	1417	47
	100-199	426	2,016	3.45	1413	51
	200-299	171	825	3.68	1410	54
	300-399	147	717	5.07	1390	74
	400-599	262	1,250	4.29	1401	63
	600-799	127	602	4.22	1402	62
	800-999	34	165	3.48	1413	51
	1000 Plus	14	65	5.78	1379	85
Gas Primary	All Sizes	466	1,965	3.58	1412	52
	1-99	145	554	3.53	1412	52
	100-199	147	624	3.61	1411	53
	200-299	47	211	2.31	1430	34
	300-399	41	188	4.33	1401	63
	400-599	63	296	3.92	1407	57
	600-799	20	81	4.27	1401	63
	800-999	3	11	1.50	1442	22
Gas Turbine	All Sizes	768	3,475	3.84	1408	56
	20-49	251	1,161	5.60	1382	82
	50 Plus	318	1,386	2.12	1433	31
Comb. Cycle	All Sizes	58	242	1.50	1442	22

Table 3. Probabilities of Simultaneous Forced Outages of Generators
(Actual Greater Bay Area Data)

# of generators in forced outage	% of year	% of year if in peak
>=1	91	8.1
>=2	68	6.2
>=3	40	3.7
>=4	17	1.6
>=5	6	0.6

Observations:

- One out of 30 generators is unavailable 91 % of time
- The probability of simultaneous forced unit outages is very high and two units are unavailable 68% of the time
- The coincident forced outage of 5 generators could occur for 520 hours/year or 52 peak-hours/year.
- The probability of having 5 generators forced out of service in the Greater Bay Area is 20 times higher using actual historical data than it would be if the units had typical NERC forced outage rates as shown in Table 4.

Table 4. Probabilities of Simultaneous Forced Outages of Generators
(NERC Data)

# of generators in forced outage	% of year	% of year if in peak
>=1	67	5.8
>=2	28	2.4
>=3	8.3	0.72
>=4	1.59	0.15
>=5	0.22	0.03

Observations:

- The lower generator forced outage rates in the NERC data result in a much lower probability for multiple unit outages.

Table 5. Probabilities of Simultaneous Forced Outages of Megawatts (Using Actual Data).

Unavailable MW in forced outage	% of year	% of year if in peak	occurrences/year (as result of a forced outage event with loss of >100 MW)	occurrences/year if in peak (as result of a forced outage event with loss of >100 MW)
>=100	88.2	7.7	60.44	5.55
>=200	74.9	6.4	54.31	4.8
>=300	66.2	5.65	49.93	4.48
>=400	48.3	4.07	40.30	3.71
>=500	42.6	3.56	35.92	3.30
>=600	28.8	2.4	26.28	2.53
>=700	20.7	1.69	20.15	2.07
>=800	15.2	1.21	20.15	1.59
>=900	10.8	0.92	12.26	1.31
>=1000	8.0	0.69	9.64	1.05
>=1100	5.5	0.46	7.01	0.61
>=1200	4.0	0.34	5.26	0.44
>=1300	2.7	0.21	3.50	0.32
>=1400	1.8	0.12	2.63	0.22
>=1500	0.9	0.07	1.75	0.16
>=1600	0.6	0.04	0.88	0.11

Note: Peak hours make up about 8.8% of the year.

Minutes of the Meeting of the Board of Directors

of the

INDEPENDENT ENERGY PRODUCERS ASSOCIATION

December 14, 1999

IEP Offices, Sacramento, CA

Members Present

CalEnergy, Jonathan Weisgall
Calpine Corporation, Joe Ronan
Calpine Corporation, Bill Woods
Calpine Corporation, Jack Pigott
Constellation Power, Bob Escalante
Enron Wind Corp., Hap Boyd
FPL Energy, Inc., Steve Ponder
GWF Power Systems, Duane Nelsen
Duke Energy, Ken Speer
Dynegy Power, Greg Blue
Dynegy Power, Lynn Lednicky
KJC Consulting Co., Tandy McMannes
Odgen Energy Group, Inc., Paul Wood
PG&E Generating, Frank DeRosa
Reliant Energy, Curtis Kebler
Reliant Energy, John Stout
Sierra Pacific Industries, Bob Ellery
Southern Energy, Rob Lamkin
United American Energy, Alex Sugaoka
Wheelabrator Shasta, Bill Carlson
Williams Energy, Roger Pelote
Williams Energy, Tim Loposer

Members Absent

Enron Capital & Trade, David Parquet
Seawest Energy Co., Ed Maddox

Guests Present

Douglas Kerner, Ellison & Schneider

Staff Present

Jan Smutny-Jones, Executive Director
Lena Workman, Administrator
Steven Kelly, Policy Director

Welcome

Mr. Ponder called the meeting to order. The Staff is excused for Executive Session. Mr. Ponder requested a motion to approve the Minutes of the August 17, 1999 Board of Directors Meeting as submitted. Mr. Carlson moved to accept the minutes, and Mr. Ellery seconded the motion. None were opposed.

Existing QF

Mr. Kerner updated the Board regarding a CPUC Proceeding on SRAC/Mandatory Switch. The PUC has a new Rulemaking and Investigation on when to move to PX pricing. (There is a separate provision for voluntary switch). IEP will file a limited objection regarding the issues of price, properly functioning market, and energy line losses.

ISO/PX Issues

Mr. Smutny-Jones updates the Board regarding activities at the ISO and PX. Mr. Kelly updates the Board on interconnection issues. IEP's supports the need for statewide consistency on the rules and policies governing interconnection issues. The Board reviews Phoenix Consulting's final report identifying IEP issues at the ISO.

Action Item: Refine list of priorities and suggest how to fund them.

2000 IEP Executive Committee Elections

Mr. Ponder led the Board through the Executive Committee Elections. Mr. Ponder nominated Mr. Ronan for Chair-Elect and Mr. Weisgall for Secretary/Treasurer. Mr. Boyd moved to approve the nominations, and Mr. Carlson seconded; none were opposed.

Renewables Issues

Mr. Kelly updated the Board on the status of Renewable Energy Marketing Board activities. Mr. Kelly is putting together language regarding a mandatory assessment on renewable generation for promotion.

IEP PAC

Mr. Ponder requests volunteers to serve on IEP's Political Action Committee (IEP's committee that administers all campaign contributions). Reliant Energy volunteers to chair the committee with United American Energy.

Restructuring Matters

Hydro Divestiture

Mr. Kelly updates the Board on the status of the hydro divestiture. IEP's position is to support a transparent and timely auction of assets.

Admin/Financial Matters

Ms. Workman gave an update on the status of 1999 Special Funds and the status of administrative and overhead expenses.

Adjournment

Mr. Ponder requested a motion to adjourn the Board of Directors Meeting. Mr. Nelsen moved to adjourn, and Mr. Carlson seconded. None were opposed. The Meeting of the Board of Directors was adjourned to an undisclosed time and location.

CALIFORNIA ISO

California Independent
System Operator

NEWS RELEASE

FOR IMMEDIATE RELEASE
February 17, 1999

Contact: Patrick Dorinson
Director of Communications
(888) 516-NEWS

CAL-ISO BOARD OF GOVERNORS NAMES NEW PRESIDENT AND CEO

COO Terry M. Winter Accepts New Position Effective March 1, 1999

(Folsom, CA) Moving quickly to fill the vacancy created by the departure of President and CEO Jeffrey D. Tranen, the Board of Governors of the California Independent System Operator (Cal-ISO) voted unanimously today , Wednesday, February 17, 1999, to appoint Terry M. Winter as the new Cal-ISO President and CEO effective March 1, 1999. Mr. Winter is currently the Chief Operating Officer (COO) of the Cal-ISO and will retain those responsibilities. He has been with the organization since its beginnings, serving first on the Board of the ISO Trust and later named COO in the summer of 1997.

"There was no need to conduct a search for a new leader, because we had the right person already here," said ISO Board of Governor Chairperson Jan Smutny-Jones. "Terry was instrumental in helping to develop the ISO, starting with his service on the Board of the ISO Trust. As COO, he has been responsible for the reliable operation of the transmission system entrusted to the ISO. We believe his appointment as President and CEO will provide the stability and continuity necessary to the ISO's continued success as we begin our second year of operation."

Mr. Winter's experience in the electricity industry spans 31 years. Before joining the Cal-ISO, he was the Division Manager of San Diego Gas & Electric's (SDG&E's) power operations. His 21-year career with SDG&E focused on power operations, transmission engineering and project management. Before his tenure with SDG&E, he worked on electrical transmission and distribution engineering for Arizona's Salt River Project for 10 years.

-MORE-

"I am very grateful for the confidence that the Board has shown in me by their vote today," said Mr. Winter, upon accepting the new appointment. "The Cal ISO will continue to fulfill its mission of Reliability through Markets through constant improvement and innovation. I am extremely proud of the team we have assembled at the ISO, and I know that their dedication and hard work will enable us to meet the challenges we will face in the future".

Cal-ISO is chartered by the state to manage the flow of electricity along the long-distance, high-voltage power lines that make up the bulk of California's transmission system. The not-for-profit public benefit corporation assumed the responsibility in March 1998 when California opened its energy markets to competition and mandated the investor-owned utilities turn their private transmission power lines over to the Cal-ISO's public power grid. The mission of the Cal-ISO is to safeguard the reliable delivery of electricity and ensure equal access to the state's "electron highway", which spans 124,000 mils or three-quarters of the state. The Cal-ISO is the second largest control area in the U.S. and the fifth largest in the world. Its computerized control center is located in Folsom, 22-miles from the capital city of Sacramento.

-ISO-

ISO-02.17.99

Board of Governors Statewide Issues Programs

Moved that ISO senior management develop a program and report to the board on the leadership activities they have undertaken and will undertake to deal with the statewide issues that California faces to continue to develop workably competitive markets. Such activities should include establishing multi-organization committees to deal with, by no later than July 17, 2000, short-term solutions for the San Diego ratepayers including new hedging or bilateral agreement capabilities, and by July 31, 2000, longer-term solutions or possibilities for longer-term solutions for incenting and expediting the siting and interconnection of new transmission and generation, development of aggressive demand-side management programs, metering for consumers, and other issues as the parties may develop.

Moved: Parquet Second: Johanson

Board Action: **Passed** Vote Count: **18-0-2**											
	B		**B**		**B**		**B**		**B**		**B**
Barkovich	Y	Ferreira	Y	Kashiwada	Y	Parquet	Y	White	X		
Blue	Y	Fielder	Y	Kehrein	Y	Roscoe	Y	Winter	Y		
Carnahan	X	Florio	Y	Kirshner	X	Smutny-Jones	Y	Wiseman	Y		
Cotton	Y	Hapner	Y	McGuire	X	Swanson	Y	Woychik	X		
Edwards	Y	Johanson	Y	McNally	A	Toenyes	Y				

. . . and be aware of, so that was kind of a starting place for you to have something to look at and decide, and very clearly we did not put any price cap in there.

MR. SMUTNY-JONES: Okay. This is what the Chair is proposing that we do barring any recommendations from the rest of the group. I think we should spend twenty minutes, to basically take a recess for twenty minutes and read these—we'll reidentify these documents, read these documents so we are all at least on the same page if we're going to have a discussion about this topic. I think it's worthwhile that we're not reading and thinking and talking at the same time. So what I'd like to do is propose that we would break until 3:30. At that point I will ask for public comment. I know there are a number of people in the audience who wish to address at this time where we sort of had a teach-in, kind of dates me, doesn't it? Uh, what we're going to do is I would like people to restrict their comments to about three minutes. I think the issues out here have been pretty well articulated by folks in the public, so I'm going to ask it's limited to three minutes. If you need more time, I'll try to be flexible, but I think it is important that we try to get this—the business of this Board done by 5:00 o'clock, so that is my intent. Do you have any objection to that approach?

Okay. Terry, which two documents do you want us to read? I know you want us to read them all, but during the next twenty minutes.

MR. FLORIO: Mike Florio checking in here.

MR. SMUTNY-JONES: Okay, so which time zone are you in this time?

MR. FLORIO: I'm actually in Pacific finally.

_____: Okay, the one is Proposed Cap Resolution, and I was just looking quickly through my packet. The other one should be Management Background-- Oh, I have _____ Management Background and Issues for Consideration. They're the two with real heavy black titles on them.

_____: Now, Terry, is this something that we can get on the web page fairly soon?

MR. WINTER: Yes, sir, I'm posting those right now. They should be out there within the next five minutes.

_____: That's great. Stacy, I'll go get on the computer downstairs.

MR. SMUTNY-JONES: Okay. Well, what we're going to do is we'll reconvene at 3:35.

_____: Can we find out where these documents are on the ISO web?

_____: _____ talking.

_____: Yes, sir, they will be under Public Information, Board of Governors, Documents, Board Items, _____. it says Board of Governors, I believe, _____, and they will be under the Board of Governors Meeting for the 6th of July 2000.

_____: Thank you very much. Thank you.

MR. SMUTNY-JONES: Okay, so I have three Board—I hear Governors Woychik, Florio, and Wiseman on the phone. Is there anyone else?

_____: Got Stacy Kusters in—

MR. SMUTNY-JONES: Stacy Cutters.

_____: In Berlin as well.

MR. SMUTNY-JONES: Okay. All right.

MR. FLORIO: For those of us who don't have ready access to a computer, what—what are these documents?

_____: Can they be faxed to you, Michael?

MR. FLORIO: No.

_____: It's a proposed resolution—

MR. SMUTNY-JONES: We have two documents. One is basically our management background teams and the other is proposed price cap resolution. Yeah.

MR. FLORIO: Okay.

_____: Jan, 3:30 is what—

MR. SMUTNY-JONES: 3:35. Florio, can you get me a number please, and I will have someone call you?

MR. FLORIO: Yes, 415-254-3597.

MR. SMUTNY-JONES: Okay. _____ if you could see that that gets done. All right, let's get reading. We'll be back in twenty minutes.

_____: Thank you.

(Tape blank for a few minutes.)

_____: Hello. Hello.

MR. WINTER: Who just said hello?

_____: Terry, this is Ken Jaffe.

MR. WINTER: Oh, hi, Ken.

MR. JAFFE: I'm sorry. I wasn't sure I was connected to anything.

MR. WINTER: Yeah, you—you are connected, and we're on a remaining fifteen-minute reading break.

MR. JAFFE: Uh, sorry.

_____: Woychik and Florio, is that correct?

_____: And Swanson.

_____: And Carnahan.

_____: And I'm here too, John, Stacy.

MR. McNALLY: Okay, I—I—I'm sorry I keep ignoring you, Stacy. That's—okay.

MS. ROSCOE: I'm going to take it personally pretty soon, though, Jack.

MR. McNALLY: You're in Canada. You can't hurt me. Uh, let's see. _____ where-- No, you're here. _____ Swanson just joined us.

_____: And we have John White as well. Is that correct?

_____: Yes.

_____: Okay, and White. Okay.

_____: And Ms. Swanson. Jack?

_____: Is there any other Board member on the phone?

MR. SMUTNY-JONES: So on the phone I have Stacy. We'll lead with her, Carnahan, _____ Swanson, Woychik, Wiseman, White, and Florio. Is that correct?

_____: Yes.

MR. SMUTNY-JONES: Okay, so we do have a quorum then. We will—we will open the meeting up. This meeting was called as a result of—under our special meeting rules. I received letters late last week from four Board members requesting that reconsider the action that we took on the $250 price cap vote at the last Board meeting. I submitted those requests to Mr. Robertson, our General Counsel, who concluded it was not an emergency meeting but a special meeting that was appropriate under these circumstances, and we schedule that as quickly as possible under those rules.

MR. WOYCHIK: Jan, this is Eric. Can you tell us who the four Board members are? I think obviously Marcie is one.

MR. SMUTNY-JONES: Marcie was one, Governor Carnahan, Governor Ferreira, and Governor McNally. Thank you. Am I missing anybody? I don't want to leave anybody out. Okay. So that occurred, and so here we are today. You will note that in your Board packet, and I know that many of you received this individually, Camden Collins has resigned from our Board effective July 4, and I just want to acknowledge the fact that Camden has been a very important part of this Board since inception and brought, I thought, a very good perspective. For one thing, she was one of the few people _____ tariff, but she will be—I think that she was an _____ on this Board. I think she did a great job here, and she will be missed.

With that, I was going to open up the public comment unless there's anything else from management. Okay, if could please line up along the southwest wall over here. As I indicated, I would like you to keep comments to about three minutes if you could. And please identify yourself and your affiliation for the record. Please come on up.

_____: Mr. Chairman.

MR. SMUTNY-JONES: Yes.

_____: A point of order. Do we—do we have a quorum?

MR. SMUTNY-JONES: Yes, we do. We have a quorum. Yes, we do. We have six on there and-- Please, go ahead, sir.

MR. HARRINGTON: Mr. Chairman, members of the Board, good afternoon. My name is Michael Harrington. I'm with CRM Corporation of Compton, California. We're the only old tire recycler in Los Angeles County. Our sixty employees recycle basically three million waste California tires per year and the thirty-five million pounds of crumb rubber that we market throughout the nation. One of our major factors in deciding to locate to California was a combination of incentives offered by the State—job training, tax incentives, but most importantly was the economic development rate EDR offered by Edison. The EDR allowed us to be competitive in the production of a commodity product, crumb rubber, while maintaining a facility in California. We've

been on this rate for seven months and now find that this rate not only will not generate any of the projected savings but actually does not cost any more than if we were not subject to the EDR rate at all. Not in our wildest dreams did we think that in qualifying for the EDR rate that it would cost us money, with the high cap becoming the floor. In high demand times you're not only discouraging new manufacturing from coming into the State, but you're also about to drive out several newcomers, including ourselves. If we cannot obtain immediately relief from the serious rate escalation, we will go back to explore the economics of moving to our second-choice location prior to moving here of Atlanta, Georgia. Thank you for your time.

MR. SMUTNY-JONES: Thank you, sir.

MR. SWORD: My name is Todd Sword. I'm the Regional Manager with the South Bay Economic Development Partnership. And I actually work with JRN in attracting to the area. I'd like to thank you for allowing me to speak today on this critical economic development issue. First I'd like to give you a little background about the South Bay. We are represented by fifteen cities, portions of the City of Los Angeles and portions of unincorporated Los Angeles County. We have approximately 932,000 residents. Approximately 30,000 businesses provide about 460,000 jobs. Now, fortunately, we're in that job _____ greater Los Angeles region. That means other areas are providing us with a work force. Now _____ economy is doing rather well, our job count is still quite low from back in the 1990s when we had over 100,000 extra employees. We were the region that was the hardest hit by the aerospace downturn. Despite that, we still have forty percent of the aerospace workers in our region. So as we struggle to support the remaining aerospace _____ as well as firms that are transitioning to the new economy industries such as telecommunications, visual entertainment, a leading concern really is the cost of doing business in California. We hear this over and over again, and especially energy costs come up.

So let me give you an example of the power the economic development _____ last year. Southern California Edison, with their support, we were actually able to attract companies such as Panasonic DVD to one of our communities which invested over a hundred million dollars in our community as well as their source of very high-paying jobs. So without the support of this economic development power rate, it'll be hard-pressed for us to sustain our economic recover. And this impact is not limited to the South Bay alone. Really, it goes far beyond there, because as I mentioned, we have employees coming from all over the county. So a decline in the employment base will hurt not only local jurisdictions, which many of them rely severely on businesses for a revenue stream (?), but also it will hurt those communities that provide us with workers. And these communities are struggling to stay where they are today. So these are only a few of the reasons that I'm here today to encourage you to support changes necessary to ensure that this economic development rate remains a competitive tool for retaining and attracting companies which provide us with high-paying jobs in the region.

Now economic developers, we really have only a limited number of tools to help companies reduce their costs and remain competitive here or attract new companies to our region. And of these tools there are only two that I know of that actually directly impact the financial bottom line of companies, and that is the State of California tax credits, and there's various types of those, but then also Edison's economic development rate. So, Southern California Edison _____ rate provides a key component to incentive packages that we put together for companies that are making decisions to relocate or remain in Southern California. So essentially any rate increase, after companies believe they're going to receive a decrease, really damages our ability to retain these companies and help them. So this also reduced the credibility of our cities, our civic leadership, and Southern California. Thank you very much.

MS. LYNN: Michelle Lynn, Grid Services. I am here on behalf of the Demand Responsiveness Program. And hopefully we'll make this work, but I have slides that I'm passing out, and I will try and run through them as fast as I can. Oop! There we are. Now, let's see. What we will do is I had made a present-- At the last Board meeting there was a question about self-provision. I'll swing past that. I will at another time thank the staff for quickly turning around the issues I had at the last regular Board meeting. My understanding is it has made change, but I need to bring it up because I have had serious questions from my clients. This is two pieces of the last Board resolution. The first said that the two load programs would be exempted from changes in the price caps, and the second one was that the ISO should buy very little replacement reserves and cap its capacity payments at a hundred dollars. So the two issues we have in the DRP. Demand Response Program, the capacity thing is set, but the agreement says that the B (?) price will determine—the last B interval will determine the energy price. So we need some clarity. Does that mean that for this program you are _____ at $750? It is important because one of my clients has figured out—one of the customers in, actually the ancillary services program _____, he breaks even when the—he gets seventy-five cents per kilowatt hour, which comes out to $750, and that doesn't include what problems we may have with the actual real time energy price. So that's a concern we need to—if you're going to keep that in, we need a little clarity. On the ancillary services part, the _____ load is looking at—look the replacement reserve because of technical requirements. The question is if the ISO wants to buy 200 megawatts of replacement reserve and there are 400 megawatts of generation in the stack, what are they going to do with, say 100 megawatts of load at a higher price? _____ here, but there's some issues that need to be kind of clarified if you forward with that.

What I really want to talk about quickly is what you're doing now will probably facilitate participation of load this year. Without a clear price signal in the real time market, we do not believe we can create a viable program for 2001. This is where we are in our plants. First of all, this year's proof of process. We want to know if it will work. If loads (?) can be set up with the ISO, will the curtailment programs work? Next year we need to have proof of value as in getting customers who want to participate and proof of profit, getting investors to pay, to underwrite the process. The issue if I go out to the marketplace now and at a, say, $250 cap, I'm going to have to persuade a load that in 2002, for instance Edison load is covered until at least 2002, but it could be—based on

1890. it could be sometime inside 2002, not just on January 1, I'm going to try and get people to come into this program on 2001, and I'm going to have to guess what the risk might be going forward. Do you leave the price caps or you leave the price caps high. where we can actually see that I can go to a place that is neutral and say here's what it costs in real time if you are unexposed. Then I can get people to participate because they can run the numbers themselves, and I don't have to say, "Trust me." The same issue with the investor. I expect _____ will become less competitive as generators get into the grid. I expect that to happen probably five years out. I've got to be able to convince an investor to put money up to get the program jump-started in 2001. so 2002. 2003 they make money, seller off (?), go away. But I need a price signal.

And the last one is—I think load should provide because of generation behind load bar support I've got to wait until you give me a price, any kind of price signal. And so that would be a year after you've put it into market redesign. This _____ the kind of programs I'm looking at next year we're going to try and generate aggregation. We're going to see if we can put some generation behind load to reduce load's vulnerability. I think we can do so _____ pieces. And the last one I just spoke about.

Now knowing that the question is, well, gee, we have-- The San Diego folks are at risk. I went out and took a twelve-month average for the PX credit. And then went out and got the last fixed tariff. This is the 1996 fixed tariff representing some tariffs earlier than '96. and this is the twelve-month average. It shows that they _____ above average. non-baseline, they're below, they're right now beating the average from '96. This is just a residential. And for those concerned about San Diego for this year. they are paying back to the residential and small commercial customers in August for over collection of CTC. And according to the website, if a customer has a bill of $50, they will be getting a check in August for $260. I think they'll be protected this summer.

Now, just for completeness, those are Edison's number, same general process. and I will be absolutely truthful. The cents per kilowatt-hour for bills went out in May and June were like 8.6 cents per kilowatt hour, for bills going out in July were 15 cents. That begins to give me a price signal. But if you start dampening it, I'm going to be in trouble. And those are the PG&E ones.

So my recommendation is really price cap. Knowing that's not going to go over real big. I'd like to see the price cap go back to $750, and I think I can get a clearer signal. The third option would be leave it where it is. It's not a particularly good signal. but it's a signal. It's something that I think I can work with. At $250 I'm not going to get much of a signal at all in real time, and real time is where you make the money, because of the forward market options when you base on calling load and real time. Thank you.

MR. SMUTNY-JONES: Thank you.

MR. ACKERMAN: Mr. Chairman, Board of Governors, my name is Gary Ackerman. and I am Executive Director of the twenty-eight-member Western Power Trading Forum. Today the Western Power Trading Forum wishes to make known to you

what is or should be by now the obvious--price caps work contrary to your economic reliability interests. Lower price caps increasingly cripple markets, chase away much-needed investments, and place an unnecessary burden on the ISO operators. And a $250 price cap will blow everything out of the water. Power sales will stream outside of the ISO every time the market price in the Northwest or the Southwest exceeds your bid caps. Price caps increase the number of times the ISO operators will face gut-wrenching decisions either to let the market self-correct in the operating hour or force the ISO to intervene, thereby crashing the real time prices. Last Friday in a stunning announcement, the governing board of the New York ISO rejected their management's proposal for a thousand-dollar per megawatt hour price cap and established—are you ready for this?—a higher cap of $1300 per megawatt hour. According to the New York ISO press release, "A higher limit will maintain the attractiveness of the New York for investment and generation and for suppliers that have the option of selling into the regional market." You see, their neighboring ISO, known as PJM for Pennsylvania-Jersey _____, have a $1000 price cap, and therefore, the New York's $1300 cap keeps New York generation resources from drifting into PJM. Apparently these folks understand something that _____ some people here have failed to grasp. As you lower the price cap, you damage the fledgling Cal PX block forward market and other commercial hedging instruments which are the very mechanisms you seek to _____. They're the mechanisms which protect consumers that you just heard from in the previous three speakers.

In the last few weeks there has been a sudden increase in the Cal PX block forward volumes for this year and next. Buyers forward (?) demand is growing at an unprecedented level and as the block forward price moves up, more supply becomes available to meet it. But the reasons for a forward hedge suddenly disappear when the price cap falls below the region's market clearing level. Wall Street analyst William Kuzawitz (?) reported this week in GeoInvestor.com, "It defies logic to mandate a reduction in price and expect sufficiency of supply." She added, "This is why California power blackouts and brownouts this summer will become more likely." In my words, as the provider of last resort, the ISO will have no reserve spin into its real time market. On the load side, the firm delivery at the bid cap price is guaranteed by the ISO. Why would a scheduling coordinator knowingly supply energy at a price greater than the cap when the FC knows that the ISO must fill the gap at the imbalance energy price which you will set today with your vote? What's more, the situation gets worse as you lower the cap, let's say, to $250 per megawatt hour. If you lower the cap, you widen the gap. The effect of your price cap decision last week is already apparent. Power started streaming out of the State in search of better prices. Conversely, contracts for electricity to Southern California from neighboring Arizona nearly tripled the day after your last decision. The price spread between Palo Verde and Arizona and SB 15 or Southern California hit a record basis differential of $35 per megawatt hour, with Palo Verde prices higher than the SB 15 prices. One of my members told me yesterday, please thank the ISO governing board for boosting the profits on my Palo Verde portfolio. I'm sure you appreciate his good fortune. In short, California is not a price leader in electricity. It's not a price leader in natural gas. It's not a price leader in any commodity which is traded. Possibly we are the price leaders in residential property values and commercial real estate rent, but then, think about it. People are willing to pay a premium for living

here. Do you think they're willing to pay a premium for electrons? The last time we have seen price controls attempt to tame a market was when the Carter administration forced the US federal government to maintain price controls on domestically produced oil. Do you remember the long lines for gasoline in the late 1970s? I do. Let me draw a parallel for you between gasoline rationing and electricity rationing. It looks like this: Shut your eyes tight, and if you like hold your hands over your eyelids, and keep them there for several hours. Maybe that way you'll get the picture. On the surface, one could mistakenly conclude that things look bad. Electricity prices were incredibly high last month. But remember, the average generating cost for electricity in 1996, and I believe this is supported by what Michelle was alluding to earlier, including both fixed and variable costs for utility residential customers. was roughly six cents per kilowatt hour. The average price for 1998 and 1999 for these same customers was a little over three cents per kilowatt-hour. Even with the high prices witnessed this summer, average annual PX prices will probably not exceed four cents, and that with natural gas prices at record levels. The result is a commodity price a full one-third lower than the good old days.

Speaking of the good old days. and looking at the people who voted for the defeat of the $250 price cap proposed last week, it is evident to us that the incumbent utilities are doing it again. They're stifling competition, thwarting development of markets, and trying to draw us back into a command and control environment. It will be interesting at the end of the day today. based on the outcome of your vote, to see how successful they have been.

MR. SMUTNY-JONES: Thank you. Mr. Ackerman. If we could try to discipline our remarks to around three minutes. I'd appreciate that. Thank you.

MR. GREENBERG: Good afternoon. Mr. Chair and ISO Governors. I'll try to keep it very brief. My name is Stephen Greenberg. I'm the Chief Operating Officer for Real Energy, formerly Intergee. We provide energy services to the commercial industry—commercial real estate industry. Those services include _____ energy resources. commodity services. energy optimization. and environmental enhancement brought together by a web-based control system that provides benefits to the facility and also a marketable product to the grid. Our clients own approximately 250 million square feet of real estate nationwide in major urban areas. over 80 million square feet in California. As a preface, when I say that real energy takes responsibility on the risk for our clients' utility bills, so what I have to say. I say knowing full well that I'm willing to take the risks. We believe that unless and until end users seek price elasticity, demand won't shift. I also believe that unless and until owners of generation can invest in a market that will reward risk, they will be dissuaded to invest in our market. Both of these conditions will exacerbate the current problems that exist during peak demand. We're opposed to blackouts. Our clients are opposed to blackouts. This factor of blackouts going into the evening in downtown San Diego, San Francisco, or Los Angeles is not one that anybody wants to imagine, but I don't have a hard times imaging that rolling blackouts through some glitch, whether human or technical, would not be able to unroll themselves. and we could see just such a situation. We're opposed to price caps. We believe that price caps are making the conditions in California worse.

MR. SMUTNY-JONES: Thank you, sir. Next?

: Good afternoon. My name is Rob Lankton, Vice-President with Southern Energy. Last week we sent a letter to the Board. Most of you have seen it, but I am sending around a hard copy. I'd like that _____ records please.

I want to make just a couple points this afternoon. First, Southern Energy does not believe that price caps are the real problem. We do not believe that it's the issue that is before you today. Prices, energy prices in California, as you know, are a function of supply, they're a function of demand, and they're a function of bidding by suppliers and load. We think that prices, energy prices are actually a symptom. They're a function of—the prices we're seeing today are a fact and a function of no new generation, no new transmission lines being put in the State for years. So it's a symptom; that is what we believe. So what is the problem? What do we view as the problem?

We think the problem before us, the issue that should be focused on is reliability for this summer. We think that changing the price caps statewide for the whole State does nothing to address this problem, this very real problem that's before us. We think that it's more important that a solution focus on what are we going to do this summer in taking care of serving a load. There is also an issue that San Diego has raised regarding its ratepayers and the exposure its ratepayers have to prices this summer. To the extent that that's a problem, we think that what should be focused on is a strategic and focused fix or to address that specifically, surgically focus on that. We think that a statewide price cap doesn't deal with the narrow issues of what the San Diego ratepayers have, and we think it exacerbates the problem before us for this summer and meeting load. Thank you very much.

MR. SMUTNY-JONES: Thank you. Next.

MR. HOBBS: Good afternoon. By way of introduction, my name is Bill Hobbs. I am President of Williams Energy Marketing and Trading businesses. Williams has made significant investments in the State of California. We currently serve forty percent of the LA Basin power needs and are currently evaluating expansion opportunities in that area, assuming market conditions are right. We also supply a significant amount of natural gas through our Kern River pipeline system in Southern California, and again are evaluating expansion opportunities to bring additional natural gas, assuming market conditions are right. We also supply high tech communications through our fiber optics network, and in California there's a tremendous growth area for that business. We are the second largest ethanol producer and are actively pursuing ways to bring ethanol to the State of California for gasoline blending. And we are discussing expanding our Longhorn petroleum pipeline to bring new supplies of gasoline to the State of California. I bring these items to your attention to demonstrate that Williams has a long-term commitment to the State of California as a corporate citizen. As a corporate citizen, it is our duty to work with the ISO to insure that the reliability of the electric grid stays intact. In this regard California needs new generation, and price caps are definitely a deterrent to new generation. We are further concerned about the comfort that the Board seems to be

taking in relying on the ability to purchase outside power out of this State to meet short-term demand needs. It is dangerous to assume that when California needs incremental power your neighbors will not. And at a minimum the ISO will likely be paying higher prices to out-of-state generators than in-state generators are receiving, resulting in discriminatory pricing under the Federal Power Act.

In closing, it is our opinion that less regulation, not more, is what California needs to solve its electric reliability issue by attracting new generation. I ask you to have the courage to stay the course towards deregulation as originally contemplated under AB 1890. Thank you.

MR. SMUTNY-JONES: Thank you.

MR. CONLIN: Yes, I'm Greg Conlin, former Commissioner at the PUC, speaking for myself as a private citizen. And I have some comments I was going to make, but I think I'm going to add a couple to begin with.

I think you need to remember where this thing started. It started in 1993, 1994, when we had 700,000 jobs lost in California. We had companies that were major employers in this State that were angry at the commission to appoint—they were ready to leave this State. Two companies walked away from half-a-billion-dollar projects. That was the straw that broke by back as far as resisting change. If I felt that--if this State was ever going to come out of this economy, that energy was at a hundred and fifty percent of the national average had to be addressed. We did not feel that regulation itself would have the ability to lower the prices in the long run. And I think our natural gas experience, which started in 1984 and went to '94, demonstrated that the price of natural gas dropped from $6 down to $2. Now lo and behold, it's back to $4 today because of market conditions, but I'm just saying that the major customers were not happy. It was a customer-driven process, and that's why we made these dramatic changes. The ISO and the PX cost $300 million. That is a lot of money. That a $22 billion market annually, we felt that that was an investment that needed to be done to create a competitive market so that supply and demand would have a force on prices, and prices would lower in the long run. But today we have no demand response. That is our problem. In our original policy decision on December 20, 1995, half of that decision called for real time meters so that we would have conservation and demand response. That has been lost over the last five years. Today if that order would have been implemented the way it was passed, all the major customers in California would have real time meters, and once the price freeze ends, like it is in San Diego, those customers would figure out what to do. I mean, I talked to one customer this week, and I explained the economics. He said, there's no question in my mind what I would do if the prices got to that level. And, you know, he would reschedule his shifts, he would take the opportunity to reduce his bill by a significant amount by avoiding the peaks. So I think a demand response mechanism needs to be done. I applaud the ISO for what they've done, but I think the amount of energy that's been devoted on price caps should be devoted on how to get demand response in the energy market. Because, you know, I'm not an economist, but I have listened for six years to the best economists in this country, and I believe that a five percent reduction in demand response would take care of the price cap problem. So we

need to form some kind of a coalition that focuses solely on demand response, how we get the major customers in the State to address their needs and still be able to shave the peak four to five percent, and, you know, I'm not an expert on what that amount is, but I think that somewhere in that ball park. In Chicago they've developed a program where in that city alone they've got 400 megawatts on a program that they could call _____ beyond the interruptible customers. So I think it is in the feasibility area, but we've got to spend the time and effort and resources of the government, the ISO, and the private sector together to figure out how to make this work. If we spent as much time on figuring out how to do that rather than whether the price cap should be at $250 or $750, I think we'd make a lot more progress this summer, and I think you've got to remember, five days from now is the fourth anniversary of the first major blackout in California. A month and five days is the second major blackout. August 10, 1995, cost this State at a minimum a billion dollars. _____ estimated cost fifty to a hundred billion dollars for that six-hour blackout. So when you're talking about an $800 million price bill in one week, you just compare that to the price of a six-hour blackout in this State that's from fifty to a hundred billion dollars, and I think that's what you need to get your reality check on what the opportunity cost of avoiding a blackout is and, and I leave that up to you as—as Board members to figure out what the price needs to be to assure that we won't have a blackout. But if we have a major blackout this summer because the out-of-market prices or the out-of-market, or the out-of-market do not respond. I think the responsibility will fall on this Board. So I think that you need to vote your conscience, and I'm not recommending any price, but I'm just saying you need to avoid a blackout. That is public policy number one. That's why we spent all the money we did to make sure that we would have a fluent market. And demand response is a key that needs to be addressed, and I certainly will volunteer my time to any coalition that wants to _____ that going down the pipe. Thank you very much.

MR. SMUTNY-JONES: Thank you very much. Next? Senator Bowen, do you want to address us? I'll tell you what, Frank, if you wouldn't mind, just for a little while. Please, Senator

SENATOR BOWEN: _____ bad clean-up. I'm used to it.

Senator Deborah Bowen, Chair of the Senate Energy Utilities and Communications Committee. Here basically to draw a little bit bigger picture around what you're—what you're doing. And I want to say that I joined you all remotely for the last meeting, _____ seven-and-a-half hours with the headset in my ear, and I actually think this is better. You get a better sense of the room.

I actually, to my surprise, probably if I could echo the comments of any one person, it would be Greg Conlin. And the thing that has concerned me the most and concerned me the most about what I heard at the last ISO Board meeting is the lack of a real discussion of demand side management. Both the Senate and the Assembly held hearings earlier in the year about the power system, about the problem that we face because we had a lack of building generation and a lack of transmission, and I think that the participants in those hearings were fairly unanimous in the view that we could not build our way out of this problem, certainly in the short term and probably not in the long

term either. There is simply no way to make it economical to build enough power to deal with meeting that peak in a way that's rational. The only way to deal with that is demand side. And we had some extensive discussions about that. Yes, we don't have an effective demand side program in place in this State at this moment. And so I am here to urge you to think about doing something other than what I think is a fairly simplistic solution, price cap, and instead going back to visiting that demand side issue.

Now there are some—I think there are some side boards around what we can do there. And when it comes to real time metering, for example, I think it's unrealistic to make the assumption that we can solve the demand side problem simply by giving every Californian who currently consumes electricity a real time meter. Think about who in the residential community is at home on a hot summer afternoon. For the bulk of those people demographically, I suggest to you without looking at the current census statistics or any numbers, that probably those two largest single groups of people are at home and cannot effectively reduce their demand are senior citizens and parents with kids at home. I think we'll have a revolution in this State if we tell low-income senior citizens and parents with kids at home, sorry, power just costs too much this afternoon. You'll have to turn off your air conditioner. We're going to have to go about it in a smarter way than that, and we're going to have to encourage people, particularly in the business community, to engage in that because it is good for them in the long run and in the short run. So I think we need to be cautious when we're looking at the demand side management.

I also note the irony of having one of the first speakers here be someone from Compton, from the South Bay. I didn't know they were going to be here. But they're here complaining about the same thing that started all of this that started all of this in 1993 and 1994, which is energy prices. And I think all of you need to be very sensitive to the fact that you don't operate here in a vacuum. The California legislature, a different legislature, a more conservative legislature, passed this restructuring. A new legislature is here now. Many of them didn't vote for this bill. _____ be restructuring _____ Prop 9, but they're dealing with the consequences of it. And it's the consequences of what we did in restructuring are that our district offices are flooded with calls from residential customers whose bills are significantly higher than they were before we began _____. We are going to have a real difficult time making the argument with a straight face _____
You have a very difficult task to do here today. You need to balance the real time supply issue. You need to keep the lights on. Blackouts aren't good for anyone. Brownouts aren't good anyone. You need to encourage people to deal with generation in this State, and I think you probably need to do it without a wholesale waiving of environmental rules. I think you will find that again communities that have been supportive of electrical deregulation, if they find that it means all of a sudden they have no say on what happens to that power plant in Redondo Beach or in Moss Landing or in those various places, the political support for the exercise (?) will fall away. But I suggest to you strongly that rather than considering looking at caps, and you go back to what we were talking about earlier this spring, how do we bring down the demand of those peak times? What kind of market structure and payment do we have to develop so that we encourage people to change their usage? How do we begin to educate residential consumers? Because there

are gains to be made on the residential side. I have no doubt that the fact that two percent of electricity in peak times is clothes dryers on a hot summer afternoon. Clothes dryers. This means we have not done a good job of explaining to people the relationship between—

(End of Side A, Tape 1)

(Different speaker)

. . . the problem that you face right now, this summer. But really the _____ problem that's going to be addressed by the Price Cap Resolution which you currently have in front of you which is set to expire later this fall. _____ the issue of the cost of San Diego's customers are having to pay for electricity. Senator Peace and I have had a couple of meditation sessions over the last two weeks, and I find it hard to believe we actually agree one hundred percent on this fact, and that is that the customers of San Diego are paying too much for electricity. They're bleeding, and it's hurting.

All right. In those meditation sessions I also asked Senator Peace, will lowering the price cap to $250 fix the problem, a clear and simple question. And he gave me a clear and simple answer: no, it will not. So the question comes up, why make this move? Why put a Band-Aid when a tourniquet is needed? The simple fact is the customers of San Diego service territory could be paying as low as four cents a kilowatt hour, yet _____ earlier this year _____ hedging the price of energy in the forward market. Instead they're paying over four times that much for energy this summer. We may not be able to fully go back and fix what's already been sent out in the June bills. But the point I want to make to the Board is that there solutions, market solutions, which can surgically go in and fix the problems for San Diego's customers for the rest of the summer. Solutions that are already under discussion with Senator Peace's office, with people in San Diego, with market participants such as _____. Those solutions can be off bill by July of this year _____ fix the problem. I want to make you aware that those discussion are taking place, and the price caps _____ alternatives. The market wants to be a part of the solution to the problem that's facing San Diego's customers this summer. Those of us that are market participants are prepared to work full-time, even including weekends if necessary, to put those types of solutions in place and to help the customers of San Diego. Thank you.

MR. SMUTNY-JONES: Thank you. Next. Let's have a show of hands of who else plans on speaking.

_____: Mr. Chairman, _____ Braun (?) for the California Municipal Utilities Association. We did not get up to express an opinion last time because we thought that it was going to be a wide-ranging diversity. I did actually benefit from some of the presentations by Mr. Stout and others, but I thought that some others kind of glossed over what I think is the essential equitable issue here.

As _____ community, I would say that generally speaking we are resource-rich, so folks are selling not only to California markets but elsewhere, and that generally allows them to benefit from some of these prices. But we support lowering the cap. And I think it goes to our general outlook on how what—how the utility industry should be run as we're moving toward total deregulation. We've heard Mr. Stout and others, a host of people talk about all the flaws in the market. They are saying the price caps aren't the problem, the flaws are the problem. There's not been enough investment in generation and transmission. We need more of that. There is an inappropriate hedging mechanism; there's other regulatory barriers. Load has grown beyond the most optimistic projections. There's no demand response. But the conclusion we get from that is, but don't lower the cap. And to me that's a large disconnect. You've got—we're in a transition period. We've got flaws that everyone recognizes, we've got flaws that are going to be there, and they're going to be with us for some time. And yet the argument is that unless you make people feel the pain right now, this business is not going to work. And I've had great doubts that folks are willing to feel that pain in the short term. So I think the question is what do you do during the transition period to provide customers—and we're not just talking about customers in CVA (?). We're talking about people that are buying from the PX; that's a lot of people. Not everybody, but a lot of people. What do you do? And I think you've got to provide them with a modicum of protection during the transition period until we get what seems to be a pretty common list of issues worked out. So as an _____ community, we definitely support lowering the caps, and we urge the Board to move that direction. Thank you.

MR. SMUTNY-JONES: Thank you. Next.

MR. ANDREAS: Hi, I'm Dirk Andreas, and I kind of wear two hats here. I work for NRG Energy--we own some power plants with Dinagee in California--and I'm also a San Diego ratepayer. And it's been kind of interesting with what's _____. I had the opportunity to talk to some of my neighbors about what's going on in California. And we all got our bills on Monday, so it was interesting discussion. And I think I'd agree with what other people have said here right now that there is a considerable concern in San Diego right now about the price of electric. This is on everybody's—the top of their agenda. It's in the papers. It's on the radio, and it's on TV. And I think that this group should look over that fact as we look at the fixes here. When we talk about the $250 cap, what I fall back on is any contract. Usually you talk about price, and then you talk about the terms and conditions. I know in the negotiations I've always done, I always negotiate the P's and C's first, and then I figure out what I'm going to pay for it. And it appears to me here's what we keep doing is talking about the price instead of looking at what's the rest of the contract look like, the contract with consumers in San Diego and the contract between the buyers and sellers here in California. I agree with John. We need to do something to correct the hedging mechanisms to allow utilities to go forward and hedge what they need to protect this risk. We need to have people like (Enrun ?) and others to provide the ability for individuals customers to hedge going forward. The other one that we keep falling back on is the whole one-pack-fits-all-size for what everybody gets paid for electric. Electricity here in California—it's just interesting to us that basically the Chicago Board of Trade, the New York Stock Exchange, basically those are all buyers and sellers agree on a price, and

that's what they trade at. Everybody doesn't trade at the same price today when they bought Enron stock today. And we just really think that that issue needs to be relooked at as one of the fixes.

And the last thing we feel that if any discussion goes about lowering this cap at this point we feel that there must be some type of a date certain which if things aren't done that things go back, that the price goes back up. And the reality there is that we're in a crisis point. If we're going to solve—if people feel that this is the right thing to do lower the cap to solve that problem, then we can each keep the pressure on to correct the terms and conditions to the contract that we all have here with the, with the consumers in California and with each other, everybody that's in this room. Thank you very much.

MR. SMUTNY-JONES: Thank you. Is there any other member of the public that wishes to address the Board? Going, going, gone. Okay, thank you. Uh, Terry?

MR. WINTER: I guess I'm here to tell you that I have been very surprised by the comments that were made today, because the little talk that I was going to give all of you really hinged around the fact that we needed to look at a much larger issue than just price caps. I know the price cap is $750, $500, and $250, to me is not the issue. I think it is a much larger issue on what are the mechanisms people can use to make the transition, and that clearly price caps is probably the least effective of doing that job. However, having said that, I was asked a question with the last proposal when we removed the requirement that I could pay whatever price I wanted to out of market, whether that would impact reliability. And very clearly in the hypothetical case and theory, if I had infinite dollars and I had an infinite supply of power outside the State, clearly I could pay enough to encourage that power to come to California, and therefore it would not be an issue of reliability. However, put yourself in the operator's shoes at this time. You're sitting on that floor, and he is trying to keep the system balanced. He is looking at the megawatts coming in. He's looking at the load go up. And it's a full-time job just to balance those two with what he's been given as an operator. Now we want to give to him the responsibility of running a market at the same time. So he's not only expected to determine well, do I have enough energy, what is the temperature, what is the load, but he's now got to go out and buy that particular power in the real time market and at what price he has to negotiate. So the result of that is that suddenly his attention is divided from reliability and into the market at the same time. And he runs into a very practical problem. And that practical problem is that we do not normally make fifty, forty, thirty changes in schedule over the hour. And when we have to do that, we in fact do all of those manually, and it's not only the California ISO, but it's the neighboring control areas that also have to handle those—those situations. So when you have people bidding out of the State and then us buying it back in, you're increasing the transactions that he has to do. In there lies a concern that I have that we will overload the system, and we have _____ example of it where we—in fact I've ____ all the deals consummated, and therefore we're running short (?). So it is a reliability problem in the extent that it overloads the mechanisms that we have in place. Having said that, people ask, well, are you willing to go to $250? And my answer is I am very concerned about the prices that we saw. They were not a small amount of money that suddenly got put into the market over a very short period of time. On the other hand, to me it is very, very clear that just

setting a price at $250 in fact may even make the problem worse. Because envision the State of California. We need six to ten thousand megawatts of power from outside the State. If we get into a shortage throughout the West, the only way that I can do that is go out and try to bid against neighbors throughout the West. And those prices are going to go up. We have seen them up a thousand higher. We've actually called those companies and not been able to get the power because it was selling higher. Do we drive the market? I don't know. But I do know that if we lower the price to $250, I'm going to still have to go above that, and the end result may be that I pay more money than I would have paid at the price cap.

The other problem is generators will, as been mentioned here, go outside the State. And when they go outside the State, why are doing that? To get more money. What does that mean? That means they're not in the PX market. What does that mean? That means the price for every megawatt, just not the ancillary services that the ISO buys, but every megawatt will have a higher price. I don't know whether that's higher or lower, but we're going to have to find out. To me if we're going to go down to the $250 level, we have got to get some commitment, as people have talked here and I'm extremely encouraged by, to all work together towards the problem. And the problem is going to be hedging. How do we allow people to transition over a period of time? The generator, theoretically, needs to make so much money during the year to be profitable. Now he can do that by getting ten dollars a month for the whole year and taking Christmastime or August as Christmastime _____ appears in the power industry, and make all of his money in one month, or we can spread it over the timeframe and—and not have the rate shock that we're looking at. So hedging is something we've got to put in place. I could not agree more that demand side management is really an answer. We have looked at that for years; we have tried to do all kinds of things. We've had air conditioning programs. We've had inverse rates where it costs more to use more, which is not your normal way of pricing a commodity. And I think all of those have to be reviewed, but everyone has to work together to get that done. I think the load has got to give a better representation of what it sees in the market. In other words, if it is going to use the market to underschedule, we have to have a mechanism where the ISO can, in fact, guarantee itself that it has energy. I cannot go into the day thirteen to fourteen thousand megawatts short and give people assurances that I will not have a rolling brownout or get into my reserves.

Over June we were down below three percent several times during the month. Now just to give you an idea, I know I'm talking small numbers, but the WFCC fines, I think all of last year I paid a little over a $100,000. In that one week I paid $173,000 in fines just because I was not able to maintain my reserves. I think everyone else was having somewhat the same problem, but nonetheless, that is a large number and shows how closely we are operating this system. I think regulators need to recognize their involvement. Clearly we are not the ones that developed demand side programs. We can fit it into our markets, but we're not the final say on how those are put together. We certainly, in my humble opinion, should not be involved in the hedging (?) markets. Those should be done outside the ISO. We should only see those as scheduled loads coming in which gives us the comfort that they are covered, and we will have the power when we need it.

I think generators have to live up to their commitments also. I am always amazed as I go through each morning report and see the number of out-of-market deviations that—that things—that people were to provide X and they didn't provide it. It is a huge list every day, and it isn't always big numbers, but the aggregate is huge. I think that-that if we're going to make this work, and if we for whatever reason choose a price cap. whether it's $500 or $250, I really think the answer is the regulators, the ISO, the PX, the load, the market, and the generators have to attack this problem, because as I see the size of those price spikes that occurred in June, I—in my humble belief do not think that the public is going to stand for that kind of volatility in the market. And therefore, we've got to figure a way to transition.

So, I thank you for listening to me. I am very concerned about the reliability, but I think just lowering price doesn't do it. It's got to be a combination of efforts. Thank you.

MR. SMUTNY-JONES: Okay. _____ Greg and then Gary.

_____: Just a quick question. Are we going to—you going to go over this background paper at all _____ presentation _____

_____: No, I covered most of the points just now, but what I did want to do with that is let you all see the issues.

_____: Can I ask just a couple of general questions, because I'm just trying to get a flavor for some of the things that are out there. One of the questions I asked at the last meeting was to what extent the block forward markets and the _____ opportunity to self-provide ancillary services were being provided. Now it is my understanding that both of those are now available at the PX; is that correct? If they're selling at the PX, could we clarify that? That'd be great. And if our staff has any observations in terms of _____ being utilized, I'd appreciate that.

MR. MULVEY: Hello. My name is John Mulvey (?) from California Power Exchange. The question was does the PX have self-provision of ancillary services and forward hedging products for ancillary services. The answer is yes. Starting July 1, ancillary services _____ self-provision as well as forward trading of regulation up, down. spin, and nonspin were available to the marketplace. So the PX has offered those forward hedging products for ancillary services, effective July 1 would be the first dispatch date.

MR. SMUTNY-JONES: Okay. Can you give us any sense of _____

MR. MULVEY: Yes. Uh—

MR. SMUTNY-JONES: I realize it's six days, but—

MR. MULVEY: Yes. The—I don't have the exact volumes here with me, but the regulation spin and nonspin, I believe, have all been traded on a forward basis. The volumes at which they've been traded is relatively low, but we are the first _____ exchange anywhere _____ or forward trading of ancillary services. So, it took a little bit of time for the prices to converge for those products.

MR. SMUTNY-JONES: Okay. Thank you. Anyone else? Gary and then John.

MR. COTTON: Thank you, Mr. Chairman. There were several comments during the public period recommending ideas, or suggesting ideas, to help out San Diego customers. Let me give you an update from last week. We have newspaper articles essentially every day in San Diego now as well as other media attention. State legislators are receiving several letters. The energy charge that went out on Monday for the week starting Monday, July 3rd, was 10.7 cents. On Monday, July 10th it'll go over 13 cents. We're looking at bills here that—when you add the seven to eight cents residential portion for the delivery part, the customer's bill is going to be 20 cents. This is very serious. I will support going to $250, and I'll support doing everything else we can to bring the bills down in San Diego and get this under control. Let me give you a little history.

A year ago on July 1, '99, we ended the rate cap _____ freeze in San Diego, but we kept the mechanism in place to protect the customers for the summer of '99. In order to get that approved through the PUC, we had to agree with the market participants not to ask for similar protection in the summer of 2000. Market participants said they would get ready. They would gear up. They would be active in the retail market in the summer of 2000. Today with these prices, we have zero advertising going on on the part of the retailers in San Diego. Very hard to understand. Somebody isn't there _____ figuring there's a way to provide some benefit here to the customers. When we've lifted the rate cap, and we have a crisis taking place.

I would like to make an offer to anyone in the room or on the phone who would like to discuss further the options and issues regarding San Diego customers, that I will stay here in this room for as long as there's somebody willing to talk about ideas and options at the end of this Board meeting. Furthermore, we can schedule a meeting tomorrow morning or Monday or Tuesday, or whenever people would like to talk about schedule solutions. Unfortunately, some of the solutions being offered we cannot now legally do, but we're willing to go after them, and we'll need everyone's support. We asked for and were turned down an option to go twenty percent outside of the PX market earlier this year. That was turned down. Today we are offering our customers level pay plan. We're going to ask very quickly for more energy assistance money from the PUC for energy conservation programs. We also are going to set up a low-income assistance program that we monitor or manage through a nonprofit organization in San Diego, and I will be contacting many market participants for help taking care of the people on fixed incomes, low incomes that cannot handle doubling of their energy bill on a monthly basis.

I would just like to—you know, close this with one comment, and that is that this is something that has to be fixed. We cannot allow this to continue, and I do think that going to $250, if it helps one percent, we have to do it. And we have to go over every other option, because the storm that we're going to all see from the standpoint of the impact on San Diego, and the economy in San Diego. When you think about that has a small business trying to come up with an additional margin of profit to make up for doubling of his electric bill. They've seen a thousand-dollar bill a month and now sees two thousand dollars a bill, he's got to sell additional product to make that up. And multiplied obviously for the larger customers. So I'll stay here, and we'll talk about things. We'll _____ We'll have—you know, see what we can do. It doesn't do any good for me to talk one-on-one with market participants about solutions. This is going to take a market solution with all the participants. Thank you, Mr. Chairman.

MR. SMUTNY-JONES: Thank you, Gary. I'll note there's thirty bag lunches behind you. Hopefully, you won't need to be here for thirty days. If anyone on the phone wishes to speak, just let me know. I'm taking the cards right now. I've got Mr. Fielder, Barkovich, Carolyn, and then Marcie and then Carrie.

MR. WOYCHIK: Jan, this is Eric. Can you put me in the queue. Thanks.

MR. SMUTNY-JONES: Okay.

MR. FIELDER: Thank you, Mr. Chairman. I'd like to talk about two issues. One is the hedging issue, and the other one is the issue of so-called underscheduling. But before I do that, I have a couple of _____ I want to show, and I won't take more than three or four minutes.

I want to address the bigger issue that Senator Bowen and even John Stout commented on, and that is, there is something wrong with the market. We've heard different people focus on different things, whether it's demand side management, whether its lack of flexible hedging products, whether it's insufficient generation, and the price cap that we are talking about, that is the $250 price cap, is a temporary Band-Aid, I admit, and the motion that we passed last week and the forum that we'll vote on today has a price cap only in place through October 15, and then we'll have to reconsider, and hopefully by then we can take a giant step forward and fix some of these problems.

Terry, your point about whether or not to move it from $500 to $250 as reliability impacts, I mean, the one reference point we have is that we did have a $250 cap last summer, we had a $250 cap in 1998, and we had—admittedly we may have higher loads this year than we had last year or the year before. I'm not sure that the problems that you talk about—which I think are legitimate problem--are price cap sensitive. I just believe _____ the comment I made last week that the surrounding control areas, having much different market structures than what we have here today, will always have the incentive to outbid California generation whether the cap's at $250, $750, or $2500, because they're only buying a small amount of energy at those prices where California's buying virtually all of it _____ position and for those prices. So I just wanted to

give that big picture and then specifically talk about hedging. And Jan, you asked this question. I think this is responsive to your question.

What this graph—for those of you that are on the phone—that I put up shows—it's hardly readable in here either—is what Edison has done in the block forward market. The yellow bar is our average net short position for the months, uh, June—May, June, July, August, and September. That's based on average peak loads, and it's a net position, so that is what we have to buy _____ against what we have generation to provide, QF's, nuclear and other generation that we own, and the green bar is what we've so far hedged. And as you can see, for the average _____ summer loads for normal weather conditions, we're in pretty good shape. And so our customers will not have to pay the total amount of what we're seeing on the market. Our customers will get the benefit of these hedges that we've been using since the start of the market. The red bar is what we're worried about. The red bar is the hot summer days. And as you can see, the hedge position is significantly less than what the potential loads could be on a hot summer day. And those are six by sixteen hedges. And so that's a lot of power and a lot of shoulder, and I don't have the prices. These are just the megawatts. I'm not going to put the prices up. But when—if we have loads that approach the red bars, we will be buying energy either in the day ahead market or in the real time market based on those loads. And as you can see, in some cases we're three or four thousand megawatts short that we'll be paying whatever the market _____ price is at that point in time.

The point here is that we have been hedging, and I'll put another chart up that kind of shows a little bit of the history and shows—

_____: John, _____ Go back, because I am one of the tallest guys in the room, so I'll just admit that flat out.

_____: The green bar—the kind of yellow bar, lemon-colored bar, is that your average net?

MR. FIELDER: That's short position for average summer days, nonpeak.

_____: So what's included in that?

MR. FIELDER: That's how many megawatts we would have to buy—

_____: Yeah.

MR. FIELDER: That we don't self-provide through our utility-owned generation.

_____: Okay.

(Two people talking at once.)

INDEPENDENT ENERGY PRODUCERS

June 27, 2000

DOCKET
2000-EOB-3
DATE 6/27/00
RECD 6/29/00

The Honorable Gray Davis
Governor
State of California
State Capitol
Sacramento, CA 95814

Re: Response to Bay Area Electricity Outage

Dear Governor Davis:

The Independent Energy Producers Association (IEP) shares your grave concern about the recent electricity outages in the San Francisco Bay Area. Our industry's single most important goal is to provide reliable, competitively priced, clean electricity to California. To that end, IEP and its members pledge to cooperate with the outage investigations you requested of the California Public Utilities Commission (CPUC) and the Electricity Oversight Board (EOB).

Key to a successful policy response is the understanding that reliable service requires reliable policy. Nothing will discourage power plant investments in California faster than regulatory and market instability, and these are investments that are essential to improved reliability and the future of California's electricity – dependent economy.

Based on contacts with major Bay Area generators, IEP is confident that your investigation will document that they did everything physically possible to supply the region's extraordinary and unexpected electricity demand during the week of June 12th-16th. Other factors, of course, also warrant consideration in your investigation.

Today's electricity supply shortage and reliability problems are the result of a complex combination of past decisions and current conditions. For example, the federal government's preemption of a state power plant development program in the mid-nineties deprived this market of generation that would otherwise be in service today. In addition, weather, market, and environmental conditions in neighboring states contribute significantly to the California's ability to meet unexpected demand, as documented by the California Energy Commission. Other issues specific to the Bay Area outage and prices include the availability and sufficiency of transmission capacity into load centers, whether retail providers, including certain utilities, scheduled their purchases in a way that exacerbated the supply shortage and price effects, and the effectiveness of load reduction programs.

(916) 448-9499 / Office
(916) 448-0182 / Fax
iep@iepa.com / E-Mail

1112 "I" Street • Suite 380 • Sacramento, CA 95814

California independent power producers are responding in the best way they can to improve the reliability of California's electric system. As a result of electric industry restructuring, they have improved the availability of existing generation and they have submitted proposals to the California Energy Commission that literally rebuild the state's electricity infrastructure. In the Bay Area alone IEP members are proposing to invest $2-3 billion in 3,500 MW of generation facilities. Three are already under construction – two in Contra Costa County and one in Sutter County. Four more, located in San Francisco, Contra Costa, Santa Clara and Monterey counties, are maneuvering through the permit process at the California Energy Commission. In addition to significantly improving electric service reliability, these new Bay Area facilities will provide new union jobs and improve air quality.

The ultimate success of these projects depends on regulatory reliability. Since the service outage, certain policy makers have called for significant, fundamental and retroactive changes to ISO and PX pricing policies. Nothing is a bigger threat to electric service reliability than the instability that these proposals would cause in the regulatory and market environments. This is not to say that the market is flawless and must remain unchanged. IEP is working with the ISO and the PX to identify anomalies in the market and to identify appropriate adjustments. IEP will share its conclusions with the CPUC and the EOB as soon as they are finalized.

In closing, IEP would like to reiterate its commitment to work with you, your appointees, and the Legislature to develop a strong and appropriate public policy response to the state's critical need for improved electric service reliability. Reliable policy is key to reliable service. IEP is joined on this letter by representatives of many of its members, including several serving the northern California market. Together and singly we urge you to maintain California's stable regulatory environment as you address the state's critical electricity reliability needs.

Sincerely yours,

JAN SMUTNY-JONES
Executive Director

Jonathan M. Weisgall
Vice President
Legislative & Regulatory Affairs
CalENERGY Company, Inc.

Joseph E. Ronan, Jr
Vice President
Governmental Regulatory Affairs
Calpine Corporation

David Parquet
Vice President
Enron North American Corporation

William F. Hall, III
Vice President & General Manager
California Operations
Duke Energy North America

Nick Wallace
Senior Vice President
Dynegy

Michael Leighton
Vice President
FPL Energy, LLC

Duane H. Nelsen
GWF Power Systems Company, Inc.

John Stout
Reliant Energy

Rob Lamkin
Vice President
Southern Energy

President
Power Resources
Thermo Ecotek Corporation

William H. Carlson
Vice President & General Manager
Alternative Energy Group
Wheelabrator Environmental Systems, Inc.

Roger Pelote
Williams Energy Services

cc: Loretta Lynch, President
California Public Utilities Commission

Michael Kahn, Chairman
Electricity Oversight Board

William Keese, Chairman
California Energy Commission

ARTICLES OF INCORPORATION

OF

CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION

I.

The name of this corporation is "California Independent System Operator Corporation."

II.

A. This corporation is a nonprofit public benefit corporation and is not organized for the private gain of any person. It is organized under the Nonprofit Public Benefit Corporation Law for the charitable purposes set forth in Chapter 2.3, Part 1, Division 1 of the Public Utilities Code of the State of California (the "Statute").

B. The specific purpose of this corporation is to ensure efficient use and reliable operation of the electric transmission grid pursuant to the Statute.

III.

The name and address in the State of California of this corporation's initial agent for service of process is:

Gary C. Heath
1516 Ninth Street
Sacramento, CA 95814

IV.

A. Pursuant to the Statute, this corporation is organized exclusively for charitable purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code (or the corresponding section of any future federal tax code).

B. Notwithstanding any other provision of these articles, this corporation shall not carry on any activities not permitted to be carried on (i) by a corporation exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (or the corresponding section of any future federal tax code) or (ii) by a corporation contributions to which are deductible under Section 170(c)(2) of the Internal Revenue Code (or the corresponding section of any future federal tax code).

C. No substantial part of the activities of this corporation shall consist of carrying on propaganda, or otherwise attempting to influence legislation, and this corporation shall not participate or intervene in any political campaign (including the publishing or distribution of statements) on behalf of or in opposition to any candidate for public office.

V.

Prior to dissolving or liquidating, this corporation shall take such actions as are necessary and reasonable to ensure the continued reliable operation of the electrical system in the State of California and such other affected states or regions, including the possible sale of its assets to transmission owners, investor-owned utilities, publicly-owned utilities or other appropriate entities. Such actions and the terms of any such sale shall be approved by the appropriate governmental regulatory entities, including the Oversight Board described in Sections 335 to 340 of the California Public Utilities Code (or any successor provisions) ("Oversight Board"). The proceeds of any such sale shall then be distributed as provided herein along with any other remaining assets.

VI.

A. The property of this corporation is irrevocably dedicated to charitable purposes and no part of the net income or assets of this corporation shall ever inure to the benefit of any director, officer or member thereof or to the benefit of any private person.

B. Upon the dissolution or winding up of this corporation, its assets remaining after payment, or provision for payment, of all debts and liabilities of this corporation shall be distributed (i) for one or more exempt purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code (or the corresponding section of any future federal tax code), or (ii) to a state or local government, for a public purpose.

VII.

Any bylaws of this corporation shall be adopted, and amended as necessary, so as to conform to requirements of the Statute and to written decisions of the Oversight Board made pursuant to the Statute.

VIII.

These articles of incorporation may be amended by the vote of at least two-thirds of all of the members of the corporation's Governing Board then in office, provided that the Oversight Board has approved such amendment. In addition, if and to the extent required by applicable law, the effectiveness of any amendment to these articles of incorporation shall be subject to acceptance for filing by the Federal Energy Regulatory Commission (or any successor entity).

Dated May 5, 1997

_____

Erik N. Saltmarsh, Incorporator

I hereby declare that I am the person who executed the foregoing Articles of Incorporation, and that this instrument is my act and deed.

_____

Erik N. Saltmarsh, Incorporator

AU330033

State of California

SECRETARY OF STATE

I, *BILL JONES*, Secretary of State of the State of California, hereby certify:

That the attached transcript of 1 page(s) has been compared with the record on file in this office, of which it purports to be a copy, and that it is full, true and correct.

IN WITNESS WHEREOF, I execute this certificate and affix the Great Seal of the State of California this day of

JAN 23 2001

Bill Jones

Secretary of State

Sec/State Form CE-107 (rev. 9/98)

OSP 98 13524

A0330033

ENDORSED - FILED
in the office of the Secretary of State
of the State of California

JAN 22 2001

BILL JONES, Secretary of State

CERTIFICATE OF AMENDMENT
TO
ARTICLES OF INCORPORATION
OF
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION

Terry Winter and Charles Robinson certify that:

1. They are the President and the Secretary, respectively, of California Independent System Operator Corporation, a California nonprofit public benefit corporation.

2. The Sixth Article of the articles of incorporation is amended to read in its entirety as follows:

"VI.

A. The property of this corporation is irrevocably dedicated to charitable purposes and no part of the net income or assets of this corporation shall ever inure to the benefit of any director, officer or member thereof or to the benefit of any private person.

B. Upon the dissolution or winding up of this corporation, its assets remaining after payment, or provision for payment, of all debts and liabilities of this corporation shall be distributed to (i) a nonprofit fund, foundation, or corporation which is organized and operated exclusively for charitable purposes (and which has established its tax exempt status under section 501(c)(3) of the Internal Revenue Code or the corresponding section of any future federal tax code), or (ii) a state or local government, for a public purpose."

3. The foregoing amendment to the Articles of Incorporation has been duly approved by the Board of Governors/Directors and approved by the Oversight Board.

4. The corporation has no members.

We further declare under penalty of perjury under the laws of the State of California that the matters set forth in this certificate are true and correct of our own knowledge.

Dated: January 9, 2001

Terry M. Winter

Terry Winter, President

Charles F. Robinson

Charles Robinson, Secretary

OFFICE OF THE SECRETARY OF STATE

From: "meboyd" <michaelboyd@sbcglobal.net>
To: "'meboyd'" <michaelboyd@sbcglobal.net>, <poli.marmolejos@hq.doe.gov>
Date: Tue, Feb 22, 2005 5:59 PM
Subject: RE: 04-AFC-1, Addendum to Response to Poli Marmolejos, Director U.S. Department of Energy Office of Civil Rights and Diversity to January 7, 2005 response to CARE's June 21, 2003 Complaint of Violation of Civil Rights by CAISO, PG&E, CCSF, and CEC

Subject: 04-AFC-1, Addendum to Response to Poli Marmolejos, Director U.S. Department of Energy Office of Civil Rights and Diversity to January 7, 2005 response to CARE's June 21, 2003 Complaint of Violation of Civil Rights by CAISO, PG&E, CCSF, and CEC

04-AFC-1, Response to Poli Marmolejos, Director U.S. Department of Energy Office of Civil Rights and Diversity to January 7, 2005 response to CARE's June 21, 2003 Complaint of Violation of Civil Rights by CAISO, PG&E, CCSF, and CEC

CC: <sebastian.aloot@usdoj.gov>, <GWaas@caiso.com>, <jpjordan@swidlaw.com>, <bpfanner@energy.state.ca.u>, <PAO@energy.state.ca.us>, <cityattorney@sfgov.org>, <docket@energy.state.ca.us>, <psimmons@energy.state.ca.us>, <steve@deyoung.org>, <Arlene.G.Hall@sfgov.org>, <Bpfanner@energy.state.ca.us>, <Bwesterf@energy.state.ca.us>, <cgraber@energy.state.ca.us>, <DRatliff@energy.state.ca.us>, <emilio.varanini@dgs.ca.gov>, <gfay@energy.state.ca.us>, <Jacqueline.Minor@sfgov.org>, <Jeanne.Sole@sfgov.org>, <jmiller@caiso.com>, <Jeffrey.Russell@mirant.com>, <Jesse.Blout@sfgov.org>, <joeboss@joeboss.com>, <jgeesman@energy.state.ca.us>, <kkubick@sfwater.org>, <karl@greenaction.org>, <lbeckstr@energy.state.ca.us>, <L_brown246@yahoo.com>, <pao@energy.state.ca.us>, <Michael.Carroll@lw.com>, <SarveyBob@aol.com>, <sharris@energy.state.ca.us>, <svalkosk@energy.state.ca.us>, <Sarah.Madams@CH2M.com>, <Anar.Bhimani@CH2M.com>, <richard.tom@sce.com>, <picketse@sce.com>, <mhudak@cmithlaw.com>, <mdebry@hillsca.org>, <sgustavson@dalycity.org>, <mraftery@co.sanmateo.ca.us>, <pthompson@ci.sanbruno.ca.us>, <ross-ndv@pacbell.net>, <joe.como@sfgov.org>, <jcassman@hansonbridgett.com>, <peterweiner@paulhastings.com>, <zacharywalton@paulhastings.com>, <jarmstrong@gmssr.com>, <louis.leonard@lw.com>, <mday@gmssr.com>, <richard.raushenbush@lw.com>, <edwardoneill@dwt.com>, <jkarp@whitecase.com>, <dtk5@pge.com>, <l_brown123@yahoo.com>, <phanschen@mofo.com>, <pcw@meyersnave.com>, <svolker@volkerlaw.com>, <grosenblum@caiso.com>, <michael@vmwp.com>, <kjsimonsen@ems-ca.com>, <case.admin@sce.com>, <bpowers@powersengineering.com>, <mturley@semprautilities.com>, <mountainwatch@earthlink.net>, <dale@sfwatercolors.com>, <hbpease@yahoo.com>, <jfccpa@sbcglobal.net>, <jnyberg@smindependent.com>, <LUrushima@FremontGroup.com>, <mmeloni@hillsca.org>, <netsakt@aol.com>, <lennie@darwin.ptvy.ca.us>, <mario715@earthlink.net>, <ross-ndv@pacbell.net>, <bethjimison@yahoo.com>, <mdjoseph@adamsbroadwell.com>, <sbaruch@gene.com>, <peteryee@gene.com>, <fosterbc@sce.com>, <scasey@sfwater.org>, <tc.roberts@mindspring.com>, <jcsv@pge.com>, <Cem@newsdata.com>, <jeffgray@dwt.com>, <sarah.esmaili@lw.com>, <Victor.Cayanan@lw.com>, <lisaweinzimer@sbcglobal.net>, <jonathan_gervais@nps.gov>, <frandacosta@att.net>, <jwandrew@yahoo.com>, <clifpat@earthlink.net>, <mnemschoff@earthlink.net>, <brflynn@flynnrci.com>, <jonathan_gervais@nps.gov>, <swoodruff@meyersnave.com>, <mrw@mrwassoc.com>, <lynn@lmaconsulting.com>, <gumbrelli@cs.com>, <puma@davis.com>, <rmccann@umich.edu>, <cmkehrein@ems-ca.com>, <e-recipient@caiso.com>, <rsparks@caiso.com>, <slee@aspeneg.com>, <claufenb@energy.state.ca.us>, <HPW1@pge.com>